THE ESSENTIALS OF HOUSING MANAGEMENT

A HANDBOOK FOR HOUSING MANAGEMENT COMPANIES IN SLOVAKIA

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CONTENTS

ATTACHMENTS

FIGURES

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ABSTRACT

The field of professional property management is undergoing significant changes in Slovakia. In the past, large, state-owned management entities undertook the management of residential property and provided service to a very small group of institutional clients, primarily the state government and state enterprises, who owned most of the multi-family housing in the country. The state provided extensive operating subsidies for housing maintenance and for utilities, and the housing owners exerted little control over the day-to-day activities of the management entity, relying on the housing managers to make most decisions regarding the operation and maintenance of housing.

The current situation is very different. The large, state-owned management entities no longer exist, having been split up into much smaller, municipally-based companies. In addition, new, private firms are starting to enter the housing management business, competing against the remnants of the former state management entities.

Housing managers will find the increasingly competitive market for management services both a boon and a challenge to their profession. The increasing demand for housing management services will provide many opportunities for more people and firms to work in this field. But, to remain in business, housing managers will have to learn to operate more efficiently and to provide better quality service than their competitors.

This handbook was written to help housing managers make the transition to the new, competitive market for housing management services that they face today. It aims to provide a basic introduction to the business of managing residential, multi-family properties. It contains instructions, guidelines, resource materials, and examples for each key component in the housing management business, including relationships between housing owners, managers, and tenants; financial management; maintaining the buildings and equipment; and organizing and controlling purchasing.

INTRODUCTION

BACKGROUND

The field of professional property management is undergoing significant changes in Slovakia. In the past, large, state-owned management entities undertook the management of residential property and provided service to a very small group of institutional clients, primarily the state government and state enterprises, who owned most of the multi-family housing in the country. The state provided extensive operating subsidies for housing maintenance and for utilities, and the housing owners exerted little control over the day-to-day activities of the management entity, relying on the housing managers to make most decisions regarding the operation and maintenance of the housing stock. The management entities performed practically all maintenance operations with their own personnel but were not generally responsible for collecting rents or selecting tenants from waiting lists.

The current situation is very different. The large, state-owned management entities no longer exist, having been split up into much smaller, municipally-based companies. Some of these new companies have been further divided and privatized, while others have remained intact under municipal ownership. In addition, new, private firms are starting to enter the housing management business, competing against the remnants of the former state management entities.

The ownership of housing is also changing. Housing managers are beginning to have different types of housing owners to deal with. The ownership of most state-owned housing was transferred to municipal governments and privatized state enterprises several years ago, and a process of selling apartments to tenants is now underway. These new owners all have different needs and requirements for management services. Housing managers must learn to deal with small owners who may have little experience with real estate and larger owners who own many properties.

Most housing owners today have limited resources to spend on maintaining and operating their properties. State subsidies for housing operation and utilities have been eliminated, and the prices of labor, materials, and energy are rapidly increasing. To respond to these fiscal limits, owners will demand greater efficiency in management and maintenance services, placing additional pressure on the housing managers to provide more for less.

The internal structures of management companies are changing as well. In many cases, the maintenance departments of the management entities have been split into separate companies. Most housing management firms must now contract out for a variety of services that they used to provide with their own employees. Housing managers must learn new skills and new methods of organizing work to adapt to these changing conditions.

Housing managers will find the increasingly competitive market for management services both a boon and a challenge to their profession. The increasing demand for housing management services will provide many opportunities for more people and firms to work in this field. Owners will begin to demand that housing managers provide a greater variety of services, giving managers additional opportunities to market their skills and generate new business opportunities. But the environment will also prove to be very challenging one. To remain in business, housing managers will have to learn to operate more efficiently and to provide better quality service than their competitors. They must find the best method of organizing their firm to provide the types of services that the market demands and must continually upgrade their skills to stay ahead of their competition.

THE PURPOSE OF THIS HANDBOOK

This handbook was written to help housing managers make the transition to the new, competitive market for housing management services that they face today. It aims to provide a basic introduction to the business of managing residential, multi-family properties. It contains instructions, guidelines, resource materials, and examples for each key component in the housing management business, including relationships between housing owners, managers, and tenants; financial management; maintaining the buildings and equipment; and organizing and controlling purchasing.

This handbook is organized into six chapters besides this Introduction. These chapters are:

- **Financial Management**—Discusses the basics of administering the financial elements of a community, including budgeting, financial record keeping, financial reports, billing, collections, audits, and tax filings.
- **Purchasing and Inventory Management**—Discusses purchasing procedures, guidelines, and controls and guidelines for monitoring, maintaining, and controlling inventories of equipment, parts, tools, and supplies.
- **Facilities Maintenance**—Addresses routine and preventive maintenance of the building, central equipment, property improvements and grounds including inspections, prioritizing repairs and maintenance, equipment inventory, preventive maintenance systems, maintenance schedules, work order programs, and maintenance within units.
- **Occupancy Management**—Addresses the basics of occupancy management, which is the process of filling vacant units and maintaining good relations with residents. Topics include marketing, vacant unit preparation, showing vacant units, the application process and selection

criteria, resident orientation, lease execution, security deposits, unit inspections, move-in procedures, and resident retention.

- **Manager/Owner/Tenant Relations**—Addresses the relationship between the owner and the manager, the management contract, communications, meetings, and reporting.

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I.

RELATIONSHIPS AMONG OWNERS, MANAGERS, AND TENANTS

The provision of housing involves a careful balance among the interests of the property owners, the housing managers, and the tenants. Each group has its own concerns, which may sometimes agree with those of the other groups, and sometimes conflict with them. In order for the relationships among the three groups to be successful and beneficial, each group must understand the roles of the others. Relationships that take into account the differing interests of all parties must be constructed.

This chapter describes the roles of the three participants in the provision of housing—owners, managers, and tenants—and describes the contractual relationships among them.

THE MUNICIPALITY AS PROPERTY OWNER

As an owner of residential property, a municipal government's primary goal is to provide decent, safe, clean, affordable housing for its citizens. Because of this, a municipality cannot simply allow a building to deteriorate, even if the property is uneconomical to operate, unless it can provide alternative housing for the residents of that building. Therefore, the municipal government should seek to maximize the value of its residential property within the constraints of its mission to serve the public good. Often this will mean increasing the efficiency of the management and maintenance practices of the organizations that operate the property so that the best use is made of the limited public resources devoted to housing.

In many larger municipalities, a **Housing Office** assumes the responsibilities of overseeing the management of the public housing stock, while in smaller municipalities this may be the responsibility of a single person. In either case, the Housing Office or Officer have similar duties. They should be involved in both long-term and short-term planning for the buildings. They should not only ensure that the day-to-day operations are carried out well, but also that plans are made to address deferred maintenance and capital repairs and improvement. The Housing Office must not only assess the property's physical needs but its financial needs as well (i.e., it should plan how repairs and renovations will be financed).

THE HOUSING MANAGER

Municipal governments now contract out the day-to-day operations of their public housing to one or more firms, commonly called **property management** or **housing management** firms. If the municipality has a large number of buildings, it is usually advisable to hire several housing management firms to manage different parts of the housing stock. This creates an atmosphere of competition among the different management companies, which should provide incentive for improved performance. Further, it makes it easier for the municipality to replace a management company if the performance of that company is seriously deficient. In addition, hiring several management companies will help stimulate the creation of a market of management services, which is of general benefit to the municipality.

While the general function of the housing manager is to carry out the day-to-day operations of the housing, this description can cover a wide variety of tasks. The housing manager's role and responsibilities can vary widely depending on the level of service that the municipality desires. The manager can take a very minimal role—paying bills, collecting rents, and contracting for major repairs of the buildings—or it can be involved in maintenance planning, selecting new tenants, cleaning the common areas in the building, and maintaining the interior of the units. In the U.S., for instance, management companies are usually responsible not only for maintaining the buildings' major physical systems, but also for cleaning the public spaces and making needed repairs inside the apartments.

It is necessary, therefore, that the municipality precisely define the duties of the housing manager. The primary document that describes the manager's responsibilities is the **management contract**, which is the legal basis for the relationship between the manager and the owner. To supplement the management contract, the owner usually lays out the manager's duties in detail in a document called the **management criteria**. The management criteria define clearly the responsibilities of the housing manager and provide a basis for judging the quality of the housing manager's performance.

For instance, the housing manager may be responsible for maintaining a safe and comfortable living environment for the tenants. This may include making certain that the common areas (such as elevators, stairwells, and hallways) are kept clean, that garbage is removed, that insects and other vermin are kept to a minimum, and that the building grounds are maintained in a clean, neat, and safe state. The housing manager must also provide for resident security by maintaining locks, doors, and (if applicable) entry systems such as intercoms.

In addition, it is the housing manager's responsibility to ensure that the buildings' systems are in working condition: heating, hot and cold water, gas, electricity, air ventilation, and elevator. The housing manager must not only ensure that necessary repairs are made promptly, but should also perform preventive inspections and maintenance to prevent breakdowns from occurring in the first place.

To ensure the fiscal well-being of the building, the housing manager must carry out financial management tasks as well. These include rent collection and accounting for all sources of revenue, payment of bills and accounting for all expenses incurred on behalf of the property (both directly and indirectly), budget preparation and implementation, and cash and cost management. The housing manager is also responsible for ensuring that tenants pay their rent and that appropriate measures are taken to keep nonpayment as low as possible.

Another responsibility of the housing manager is to keep accurate records on the properties and to provide any reports or information required by the owner or Housing Office. This includes keeping organized records for each building, apartment, and tenant, including tenant leases, rent payment records, maintenance records, and any legally required accounting records for the properties. The housing manager should provide regular reports to the owner on the financial condition, occupancy status, and maintenance activities.

Finally, the housing manager should encourage tenant participation in the maintenance of the building and try to ensure tenant satisfaction to the greatest extent possible.

THE MANAGEMENT CONTRACT

The management contract is the foundation upon which the relationship between the property owner and the housing manager is built. In order for this relationship to be successful, it is important that the contract be well written, legally enforceable, and truly acceptable to both parties. The key terms of a management contract are provided in Figure 1.

The management contract should stipulate the length of the agreement and the fee for housing management services. It should enumerate the responsibilities of the owner vis-a-vis those of the housing management company, and should include a list of duties that the management company should carry out. This is the basis upon which the housing manager will ultimately be evaluated. The management contract should also specify the reporting requirements of the management company, and it should establish the limits of liability of both parties.

The management contract should contain an enforcement provision that gives the owner recourse should the housing manager not meet minimum performance standards or otherwise violate the terms of the contract. In this case, the owner may warn the manager to take appropriate steps to correct the problem. If the housing manager continues to violate the contract, however, the contract may allow the owner to fine the manager or to cancel the management agreement altogether.

THE TENANT

- Name of the owner
- Name of the management company
- Date the contract was prepared
- Beginning and ending dates of the contract
- Specification of the services that are to be performed by the management company
- Amount of the fee
- Description of information that must be transmitted from the owner to the management company and from the management company to the owner
- Obligations of the owner as to paying the management fee, ensuring the availability of funds for paying bills and other obligations of the property, and meeting and communicating with the management company
- Rights of the management company to be paid its management fee, to disburse funds up to a stated limit, and to perform its duties and responsibilities without undue interference
- Rights of the owner to use excess funds not required for budgeted or operating expenses and to be promptly informed of any emergencies or urgent situations
- Provisions for penalties to be paid to the owner in case of inadequate performance by the management company
- Bonuses to be paid to the management company for superior performance
- Conditions for termination of the contract

The owner's responsibilities toward the tenant are to provide heat, electricity, and other services paid for by the tenant; to respond in a timely manner to the tenant's complaints; to keep the building and surrounding property in a safe, clean, and well-maintained condition; and to follow all other provisions provided by law and by the agreement with the tenant. As was discussed already, the owner of many properties usually delegates these responsibilities to a professional housing manager. Nevertheless, this does not relieve the owner from the obligation of ensuring that these responsibilities are in fact being met.

Tenants should be viewed as the clients of both the property owners *and* the property managers. Providing quality services to the tenants should be top priority of housing management. Even in public housing, which normally serves people who have fewer housing alternatives, the municipality and the management companies should respond to the needs and wishes of the tenants as much as possible. If the tenants believe that the owner and the housing manager do not care about them, then they will not be likely to care about the property or about paying their rent on time. If the tenants feel that they are being treated fairly and that there is a sense of partnership with the owner and the housing manager, then they may be more willing to do their part to keep the property in good condition.

What, then, are the responsibilities of the tenant? In general, a tenant's responsibilities are to pay her rent, utility, and other service charges in full and on time; to keep the apartment in good condition; and to avoid causing damage to the property. The tenant should also refrain from activities that would cause danger or annoyance to other tenants and should adhere to the conditions provided by the law and by the rental agreement with the owner.

II.

III.
FINANCIAL MANAGEMENT

Financial management is the process of preparing a financial plan, administering financial assets according to that plan and sound business management principles, recording all financial transactions, reporting on financial activity, and ensuring proper controls to protect financial assets. Financial management includes:

- A financial management system
- Budgeting
- Billing for and collecting income
- Receiving and paying bills
- Preparing financial statements
- Reporting to the owner through the financial narrative

In this chapter, the manager will learn what is involved in the financial management of the property.

USEFULNESS OF BUILDING LEVEL FINANCIAL DATA

In the past, most housing management companies kept aggregated financial records for all of the buildings belonging to a single owner (i.e., the state). The manager did not separate income from different properties and, in this way, pooled income for all of the buildings to subsidize less profitable buildings with the revenues from those buildings whose incomes exceeded their expenses. It was therefore not possible to disaggregate income and expenses for individual buildings in the owner's portfolio.

In contrast, in the U.S. it is common practice for housing managers to treat each building they operate as an individual "cost center." The revenues and expenditures for each building are tracked separately, enabling the manager to evaluate a building's economic performance by comparing income with expenses. In principle, a building should cover all of its expenses (both short-term and long-term) from its own revenue stream.

In the management company's accounting system, the separate income and expense entries for each building must be entered as separate transactions. Each transaction entry must include an appropriate building code to identify the particular building to which the transaction applies.

Being able to evaluate an individual building's financial performance is an important analytic tool for the property manager. First, it allows him to identify those buildings that are not economically profitable. By comparing the costs of different components of the building's operating expenses (routine maintenance, utilities, major repairs), the manager can identify those building components or systems that are the most expensive to operate and can direct efforts toward reducing costs in those areas.

Another advantage of tracking building income and expenditures on a building-by-building basis is that it makes explicit the cross-subsidization of one building by the operating surpluses from other buildings the owner's portfolio. Since the buildings' incomes are not pooled, any subsidy of one building by another must be made through explicit accounting transactions. This could be done most simply by establishing a pooled income fund that some buildings could pay into and that others could withdraw from. Of course, separate funds would need to be set up for each of the different owners for whom the company is managing properties.

In the remainder of this chapter, it is assumed that building income and expenses are tracked separately.

BUDGETING

A **budget** is a financial plan that reflects known and anticipated income and expenses. The budget is the key element in ensuring that the maintenance requirements of the property can be met with the available financial resources. Most rental properties use two different types of budgets. The first is the **operating budget,** which includes all regular sources of building income (such as rent and service payments from tenants) and all routine operating and maintenance expenses. The operating budget is prepared annually, for a period corresponding to the normal fiscal year, which is usually the same as the calendar year.

The second type of budget is the **capital budget**. The capital budget includes large repair items (reconstruction of building physical components, replacement of worn equipment, and major renovations) and the sources of funds for these repairs (loans and reserve funds). Because of the large cost of most such expenses, capital budgets are generally prepared for a period of several years.

Ideally, separate operating and capital repair budgets should be developed for each individual building. If the owner has many buildings, however, it may be difficult to prepare individual budgets at first. In this situation, the housing stock can be divided into several different building types and separate model budgets can be developed for each type. These model budgets can then be adjusted to specific buildings based on the number of apartments and commercial spaces.

The budget is the result of a planning process that spans the entire fiscal year and that must consider many aspects of the property's operation and physical condition. The manager should begin developing the budget for the next fiscal year before the end of the current fiscal year. Once the next fiscal year begins, the budget is used as a control document to monitor how well the financial plan is being followed.

Financial Decision-Making

Many decisions must be made in the course of preparing a budget. While it is ultimately the property owner's responsibility to make these decision, the manager plays a crucial role in evaluating the advantages and disadvantages of different courses of action and giving his expert advice to the owner. Each potential decision should be evaluated in the context of its direct or indirect effect on five different areas: consumers, services, governance, operations, and finances.

For example, the owner of a building is considering whether to convert the property's heating and domestic hot water source from an off-site central heating plant to a combination furnace and hot water heater unit that would serve the entire building. A financial analysis has shown that the initial cost of such a system and the related conversion could be paid back through savings in utility expenses in eight years. The owner, with the help of the manager, needs to identify how such a conversion would affect the consumers (tenants), and the building's services, governance, operations, and finances:

- **Consumers**—These are the people who will use and pay for the new system. Do they need or want this conversion? Can they afford the expense that must be paid in the coming year? Does it further their interests, and if so, how? If not, why is the conversion being considered?

- **Services**—This category includes all the basic services (water, heat, electricity, etc.) and other, nonessential services delivered to tenants. How would this change in service affect any other services, such as domestic cold water, gas, or other services? Would this change adversely affect any services that must be provided? Is there a particular time of year the conversion should be done to avoid interrupting necessary services? Does this mean the manager will have to reduce or eliminate any other services? If so, what are the short- and long-term effects of such a reduction or elimination?

- **Governance**—This refers to the rules and rule-making and rule-implementing structure of the property. Does the owner have the legal authority to take this action? Will this conversion make the property subject to laws or regulations that it is not currently subject to? What governmental or regulatory approvals are required?

- **Operations**—This describes the means by which the services are delivered to consumers. Does this decision affect staffing requirements? Will the manager need to add or eliminate staff? Will persons with a different type of expertise be needed? What specifications and conditions should be included in a Request for Proposals? (See Chapter IV for information on the service procurement process.) Are there persons or firms who have the expertise required to make the conversion? What type of maintenance requirements are there for this type of equipment? How reliable is the equipment?

- **Finances**—This refers to the means by which the services are funded and includes consideration of the assets of the property as well as the financial management system. How will the owner fund this expense? Can an agreement be reached with the equipment provider to pay for this out of future savings in utility expenses? Are there any areas in which costs may increase due to the conversion that might offset any utility cost savings?

The Budget as a Control Document

The budget is a model that projects the financial activity of the fiscal year. It should therefore guide and control what may be spent for normal operations, capital improvements and what will be accumulated in savings for future major repairs. The budget is also a means to anticipate what might be expected to be spent on unpredictable problems such as plumbing leaks, electrical problems, etc.

Each decision made during the budget year should be evaluated as to its potential financial impact and whether it was budgeted or is within budgeted limits. The purpose of such decision analysis is to stay within budgeted limits as much as possible. The monthly and quarterly financial statements (see discussion below) provide up-to-date information to the manager as to whether the current expenses for the building are within the limits set by the budget.

While the budget is intended as a control document, this does not mean that the amount budgeted for a given line item cannot be exceeded. There are many factors beyond the control of the manager that could cause expenses to exceed budgeted amounts, such as below normal temperatures for several months (which would increase heating costs), unanticipated cost increases by utility providers, or changes in government laws or regulations.

Because exceeding budgeted expense amounts will affect the financial performance of the property, it is the owner's responsibility to establish a policy for dealing with such circumstances. This policy might be as simple as requiring the owner's prior approval before the manager can incur any expenses that might exceed budgeted levels. Or, the policy might allow management to spend up to a certain percentage over a budgeted line item without prior approval from the owner as long as the expenditure did not cause *total* expenses to exceed the *total* operating budget. Whatever the policy is, it should be clear, consistent, and designed to ensure that adequate controls are in place and are followed.

The owner of the property needs establish policy for rcumstances in which it appears at a budgeted line item will be ceeded.

SOURCE MATERIAL

Developing a property's budget requires the accumulation of material from several sources. Before preparing the budget, the housing manager should collect all available source materials that will provide information necessary to the budget process. As with any document, the more information used to assemble the budget, the better the final product should be. Some important sources for budget material include:

- **Historical Data:** The most important source for budget information is the property's past history. In particular, this data is helpful in estimating utility and maintenance costs, costs for major repairs or replacement of building components, administrative expenses, and payroll and other related expenses.
- **Laws and Regulations:** Of particular importance are any taxes, insurance requirements, or financial institution requirements that might affect the budget.
- **Utility Provider Rates:** A well-developed utility budget should be based on historical consumption data for the property. This data is used to project consumption of utilities in "units" as described by the utility provider (thermal units, kilowatts, kiloliters, etc.). Once consumption for each utility is projected, the consumption levels should be multiplied by the applicable rates charged by each utility.
- **Service Providers:** Each vendor and contract service provider should be requested to provide information as to any rate increases they anticipate or other events within their service area that may affect the property's expenses.
- **Other Sources:** These may include industry-related publications, data from similar communities, and government publications.

DEVELOPING A BUDGET

The first step in developing a budget is to prepare a **budget calendar,** which is a schedule for all of the tasks that are part of the budget development process. The calendar should include time for developing budget proposals, resolving differences of opinion between the manager and the owner, writing and reviewing a "draft" budget, presenting a "final" budget to the owner, and getting final approval for the budget from the owner.

Before starting to develop the budget, the owner and the manager should agree on the budget calendar so that both parties will have an opportunity to participate in the budget's development before the new fiscal year. A typical calendar includes at least the following steps, as applicable to the circumstances of the property involved:

- **Developing the Baseline Budget:** The baseline budget is a summary analysis provided to the owner that provides the actual expenses of the property for up to a maximum of five previous years (if available), the current actual and budgeted expenses for the present fiscal year, and the manager's initial budget recommendations for the coming year.

- **Developing Recommendations:** Recommendations should be based on information about known increases from utility providers and service contractors; projects and purchases that in the opinion of the manager, should be undertaken in the coming year (such as replacing a leaking roof); an allowance, either line-by-line or based on total operating expenses, for unanticipated expenses; and any other adjustments recommended by the manager based on information known at the time of preparation.

- **Providing Dates for Specific Tasks:** The calendar should specify the date by which those involved in the budget development process must provide their comments to the housing manager and dates for **review meetings** with the owner and (if necessary) the tenants. These meetings are helpful for answering questions, discussing concerns, and negotiating allocations. The calendar should set the dates for delivering the draft budget to the owner and for approving the final budget. (The date for submission of the final budget may be specified in the management contract.) There may also be some dates for adoption or notice required by law or regulations that should be included on the calendar.

OPERATING BUDGET

Because of their different scope and content, capital and operating budgets should be prepared using very different procedures. The **operating budget** addresses the income and expenses required for the day-to-day operations of the property. It generally consists of major income and expense categories, which are then divided into specific line items, or "accounts." Typically these accounts include:

Income
Rent, Service, and Maintenance Charges Paid by Tenants
Financial Income (Interest from Bank Accounts)
Other Income

Expenses
Administrative Expenses
Personnel Expenses
Repair and Maintenance Expenses
Payments to Replacement Reserve Fund
Utility Expenses
Tax, License, and Insurance Expenses
Other Expenses

The above general accounts are in turn further broken down into detailed **line items** under each subheading. For example, “Rent, Service, and Maintenance Charges Paid by Tenants” can be further disaggregated into separate line items for rent, heat, electricity, elevator, and so on. In general, the housing manager should use the smallest level of detail that is practical for accurately estimating expenses in the coming year. The level of detail in the budget should be equivalent to that used by the accounting system so that budgeted and actual amounts can be compared for different line items.

A sample format for an operating budget is provided in Figure 2.

For each budget line item, the housing manager must estimate the amount of income or expense associated with that item for the coming fiscal year. As was stated previously, information on previous year’s actual income and expenses are vital to estimating levels for the future. On the income side, it is important to take into account any rent or service charge increases that may be imposed. For expenses, the amounts must include increase in costs from higher prices for labor, materials, and services. Where appropriate, expenses should also include sufficient resources for unanticipated extra expenses, such as an unexpected increase in heating costs or the breakdown of the elevator.

Considering Service Levels

Each expense line item amount should also be considered in the context of the level of service for each item that will be provided in the coming fiscal year. Consideration of various service levels is important when planning for the operation and maintenance of the property. Services can be:

- **Maintained at current levels**: No change, except to account for increased costs of materials or from service providers.
- **Expanded**: Performed more frequently, provided to more people, or performed at a higher level of quality. This may be done by initiating a new service or restoring a service provided at one time but that was eliminated.
- **Reduced**: Eliminating the service completely or providing the service on a less frequent basis.
- **Restored**: Reintroducing a service that was provided at one time but was eliminated.
- **Initiated**: Introducing a new service that was not previously provided.

If the levels of service are to be increased, then the budget should reflect the additional costs that will result from this change. If services are reduced or eliminated, then this also should be reflected.

CATEGORY T

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It is important to be aware of the ffering levels of service options uring the planning and budgeting rocess. Each service should be eviewed to determine whether any hanges are required, or whether is possible to enable other ervices to be introduced, iminated, or changed.

NCOME

'otal Potential

'otal Adjustments

let Potential

'otal Other Income

'otal Income

EXPENSES

Administrative

'ayroll

Jtilities

Repairs and Maintenance

Contract Services

'axes and Licenses

'otal Operating Expenses

let Operating ncome/Loss

'otal Non-Operating Expenses

'otal Transfers from Reserves

NET CASH FLOW

Using Historical Cost Data and Industry Information

In existing housing properties, the manager may have well-documented information on the historic costs of operating the property, particularly as to utility consumption levels and maintenance and repair expenses. This information is quite valuable in developing operating budgets for the future years. The budget preparer always needs to research and evaluate such information carefully, however. Historical data may be misleading if some change that would alter costs or incomes in the future has taken place, such as severe inflation.

Where historical data on operating costs is not available, using data from other properties of a comparable type is often possible (similar style of building, number of stories, type of utility distribution systems, construction materials, etc.) as a basis for developing the budget.

Using the maintenance line item “Electrical Repairs & Supplies” as an example, the following process would be typical in developing the line item projections for the next fiscal year:

1) **Determine the annual costs and use patterns in this area for the past several years.** Based on past experience, the manager knows that a particular property normally requires 50 fluorescent light bulbs each year. The local supplier has advised him that the fluorescent light bulbs will cost approximately 3,600 Sk per case of 25 lights. The total cost for two cases of light bulbs for the year will be 7,200 Sk. This cost is included in the operating budget for next fiscal year.

Regarding repairs, while there is no way to know what kind of unforeseen electrical problems will occur during the next coming year, the manager can use the past as a guide. By checking the maintenance records, the manager found that over the last three years, expenses for emergency electrical repairs have been 22,500 Sk, 36,000 Sk, and 18,000 Sk, respectively. It would be reasonable to use the average of the past three years (25,500 Sk) to project the cost of electrical repairs for the next fiscal year.

2) Identify any special circumstances that would make the historic cost patterns of the past several years inappropriate for calculating future costs. If there was a special project that was funded over the past three years to replace incandescent lighting with fluorescent fixtures, then these costs would not be a valid basis on which to calculate future costs. Calculations would need to be based on such factors as the number of lighting fixtures, the cost per fixture, and its typical useful life (does a typical fixture last for one year, three years, five years, etc.). Using this information, the manager can determine what typical costs would be during the year.

3) Identify the known repairs or supplies that require funding during the next fiscal year. The manager knows that in the next fiscal year several exterior light fixtures will require rewiring. The manager has received an estimate from a local electrical contractor that the cost of this rewiring will be 30,000 Sk.

4) Combining the three steps shown above, the manager would project the "Electrical Repairs & Supplies" line item as 62,700 Sk for the next fiscal year (7,200 + 25,500 + 30,000 = 62,700 Sk).

For some line items—especially utilities (gas, heating hot water, domestic water, and electricity)—the historical data examined should be *levels of usage* rather than the cost. Utility costs may vary widely from one year to the next. Therefore, cost projections will be more accurate if they are based on historic consumption levels of the building rather than on annual expenditures.

Many buildings today are not metered for individual utility usage, so obtaining accurate historical data on consumption levels for specific buildings may be impossible. As more and more buildings have meters installed, however, it will become possible to gather and maintain accurate data on consumption levels and incorporate this information into the budgets.

Once it becomes possible to track consumption data on a building-by-building basis, this should become an ongoing financial management tool. It is possible to establish typical consumption patterns (for domestic water, for example) based on per-unit, per-day consumption. Once those standards have been established, the manager can monitor water bills to see if there are any unusual patterns. For example, if the normal water consumption level has been established at 120 liters per unit, per day, then a 60-unit building would use an average of 216,000 liters per month (120 liters/unit/day x 60 units x 30 days/month = 216,000 liters/month). If this pattern continues for several months, and then suddenly one month's consumption is 250,000 liters, the manager should suspect a serious leak or a defective meter and should initiate efforts to determine the cause.

To summarize, the manager should look at the historic consumption patterns (for example, water consumption of 216,000 liters per month), annualize the pattern (taking into account seasonal variation for heating and hot water, for example), and then calculate the annual expense. For example, at an average of 216,000 liters per month, the building should use approximately 2,592,000 liters per year. If the per-liter cost of domestic water from the providing utility is 0.78 Sk per liter, then the annualized estimated cost for domestic water would be 2,021,760 Sk (216,000 liters per month x .78 Sk per liter x 12 months = 2,021,760 Sk).

CAPITAL BUDGET AND RESERVE PROGRAM

To the casual observer, it may appear that residential properties are not consumable goods because they do not wear out as rapidly as clothing or other consumer goods. In fact, buildings are "consumed,"if very slowly, because building systems and components wear out and break down after many years of use. If positive action is not taken by the owner and the manager to counteract this slow but constant consumption, the building will decrease in value and usefulness to the point where it can no longer serve the needs of the owner or the tenants.

To prevent this from happening, plans must be put into place to address capital replacement costs over the life of the property. The **capital budget** serves as the plan for preserving the long-term value and usefulness of the property. While the operating budget addresses anticipated routine expenses for one fiscal year, the capital budget projects funding required for items that span more than one year or are extraordinary in nature.

The capital budget consists of three major components:

- Reserves for Major Repairs and Replacement ("Replacement Reserves")
- Operating Reserves ("Contingency Fund")
- Capital Improvements

Each of these three components will be discussed in turn below.

Replacement Reserves

Replacement reserves are funds set aside each year so that there will be resources available in the future when building components or systems require either major repair or replacement. If such funds are not accumulated over time, when major repairs or replacements (such as a roof replacement) become necessary, the owner will face two choices:

- Do nothing, in which case the property deteriorates and loses value, or
- Find a way to raise significant funds all at once.

Neither alternative is particularly desirable for the owner. To raise additional funds for repairs in a rental property, the owner may have to divert funds from other areas, borrow funds, or raise the rents (if possible). For municipal housing, raising rents, even if it were legally possible, may be undesirable if it would make the housing unaffordable. It is conceivable that other tax revenues could be used to supplement the building revenues, but this is not a realistic option for most municipalities today.

Each property component has its own replacement cost and typical useful life. The **replacement cost** of a component is the cost of completely replacing that component or piece of equipment when it reaches the end of its useful life. The **useful life** of a component is the length of time that such a piece of equipment or building part is expected to last under normal circumstances.

> **Replacement reserves make it ısier and more fair for a property ı handle the cost of large repairs ıd replacements. Through ·serve contributions, all those ho live in the building over the ·ars and contribute to its wear ·ntribute financially on an equal ısis with those who come later. If ıey did not do this, they would be ·ferring the full cost to future ·cupants.**

The replacement cost and useful life of different property components are the two pieces of information that form the basis for establishing a **schedule of reserves,** which indicates how much money must be set aside each year to pay for the replacement of building components as they reach the end of their useful life.

The first step in developing a schedule of reserves is to inspect the property and prepare a list of reservable components. These are components with a useful life of longer than one year and a replacement cost large enough so that they would not be included in the annual operating budget (for instance, water faucets have long useful lives, but are not costly enough to warrant being in the capital budget). These components are those that are part of the building exterior or building site, the common areas, or are outside of a unit or serve more than one unit. In a rental property, certain components inside units would also be included, such as appliances and plumbing fixtures. Figure 3 contains a list of reservable building components.

> **The *schedule of reserves* is the ısis for annual amounts to be ıdgeted in the capital budget for ·placement reserves.**

The owner can commission a **reserve study** to prepare the information for the schedule of reserves. This study is an evaluation by an outside expert (such as a mechanical and structural engineering team and a construction consultant) of all reservable components as to current condition, estimated remaining useful life, estimated cost of repair or replacement to restore full useful life, estimated cost of repair or replacement if new, and priorities for repair or replacement.

Once the list of reservable components has been created, it is necessary to develop the following information for each component in the property:

- **Name/identification of the component**
- **Quantity or volume,** such as number of roofing squares, square meters of asphalt, number of air handling units, etc.

- **Current replacement cost**
- **Estimated useful life** (if in new condition)
- **Annual funding requirement**

This information should be compiled in a chart or spreadsheet so that all calculations can be easily done. Figure 4 provides a sample schedule of reserves in such a format.

The sample schedule of reserves lists each reservable component for building “XYZ.” For each item, such as the roof, the quantity is given in appropriate units (238 square meters), the replacement cost per unit (300 Sk per square meter) and the total replacement cost (71,400 Sk). Next is the average useful life for the component (20 years) and the remaining useful life for the component based on its current condition (10 years). Finally, the schedule shows the total amount that must be set aside in the reserve fund each year to be able to pay the replacement cost for each component when it reaches the end of its remaining useful life (71,400 Sk divided by 10 years, or 7,140 Sk).

XYZ COMMUNITY
SAMPLE REPLACEMENT RESERVE SCHEDULE

'EM	QUANTITY	UNIT COST	TOTAL COST	LIFE EXPEC-TANCY	CONTR
OOF	238 Squares	300 Sk	71,400 Sk	20	
OOF FANS	5	1,800	9,000	10	
ER VENTILATION MOTOR	1	34,128	34,128	15	
AS FURNACE	1	150,000	150,000	20	
ATER HEATERS	1	45,000	45,000	12	
UCKPOINTING/CAULKING	1	7,500	7,500	10	
NTRY DOOR INTERCOM	1	10,000	10,000	10	
RE PROTECTION SYSTEM	1	150,000	150,000	12	
ONCRETE, TRAFFIC AREAS	395 m2	150	59,250	20	
UTTERS	385 m	250	96,250	25	
ATHWAY TILES	30	100	3,000	20	
LEVATORS (MOTOR)	1	30,000	30,000	20	
LEVATOR CABS	1	120,000	120,000	15	
OTAL ANNUAL ONTRIBUTION					

gure 0. List of Reservable Building omponents

Roof

Building Facade Repairs (caulking, sonry, concrete repairs)

Gutters & Downspouts (roof drainage stem)

Heating Equipment (furnace or boiler and ated equipment)

Ventilation Equipment

Hot Water Heaters

Plumbing System (pipes & plumbing xtures)

Pumps

Electrical Panels & Wiring

Common Area Lighting

Elevators (machinery, belts & cables, ntrols, cabs)

Fire Control System

Door Intercom and Entrance System

Major Interior Painting (does not include uch-up work)

Major Exterior Painting (does not include uch-up work)

Floor Coverings (such as carpet, tile, etc.)

Common Area Furnishings

Other equipment and components that are rt of and owned by the property (list each parately)

The total annual contribution to the reserve fund from all building components is given at the bottom of the reserve schedule. This is the total amount of building funds that must be set aside each year to pay for the renovations included in the reserve schedule. This amount may exceed the funds available after the operating costs are deducted from the available revenues. In this case, the owner and the manager must either find additional sources of funds to finance the needed capital repairs or decide to postpone or put off indefinitely the replacement of certain components. For example, it may be less costly (in the short run) to continue to repair the roof rather than replace it. The owner and the manager should bear in mind, however, that while such a practice may save money in the short term and avoid the large, lump-sum expense of replacing the roof, postponing replacement of the roof may be more costly over time because of the extra repair costs that would be avoided with a new roof.

Once the initial schedule of reserves has been established, it should be updated each year as part of the regular budget process.

Operating Reserves (Contingency Fund)

An **operating reserve** is a cash reserve set aside each year as a contingency against major unbudgeted and unanticipated expenses. Generally such reserves are set at 1 to 3 percent of the total operating expenses.

Since it is a cash reserve, the operating reserve is budgeted for the current year only. If the operating reserve is not used up in a given year, the remaining amount is not added to the amount budgeted for the operating reserve in the next year. Instead, the same amount is budgeted for the next year. Thus, **the total amount in the operating reserve should never exceed 3 percent of the total operating expenses.**

The following are three examples of how the operating reserve might be used:

Example One: Snow removal expenses were budgeted based on experience over the past five years. However, extraordinary levels of snow accumulation occurred last winter, resulting in actual expenses that exceeded budgeted amounts by 200 percent. **Use the operating reserve to pay for the cost overrun.**

Example Two: A severe wind and rain storm caused interior damage from wind-driven rain. The cost of repairs exceeded the amounts budgeted for maintenance and repair. **Use the operating reserve to pay for the cost overrun.**

Example Three: After the budget was adopted, the provider of hot water service was fully privatized. Since then, the cost of hot water has tripled due to the elimination of subsidies. **Use the operating reserve to pay for the cost overrun.**

Note that the operating reserve is for *unexpected* or *unforeseeable* expenses. Normal or expected cost increases (such as for heat or service charges) or typical variations in weather or other conditions (such as slightly larger than normal snowfall) should be accounted for in the regular operating budget.

Capital Improvements

Capital improvements are major redecorations, additions, or stylistic changes to the property. Capital improvements are *not* major repairs to or replacements of existing components; these are replacement reserve items. Examples of possible capital improvements include:

- Adding a rooftop deck to a roof that was previously unimproved
- Major property landscaping improvements
- Converting private basement storage to an on-site management office
- Installing a children's play area

Determining the amount to budget for any particular capital improvement requires going through the planning and budgeting process and the procurement process (or at least preliminary research) described in Chapter V. Each capital improvement item should be individually listed in the Capital Budget, and then all should be totaled to set the total capital expense budget for the year.

This category of improvements is primarily applicable in private rental properties where adding such amenities can make the property more attractive to potential renters. It can also be appropriate for municipal properties in situations where such improvements may significantly improve the quality of life for the tenants. Such improvements must have a lower priority than necessary building repairs and replacement of building components.

To illustrate the steps involved in preparing a capital budget, an example is given in the next section.

Capital Repair Plan and Budget Example

A municipally-owned apartment building is approximately 20 years old. During its first ten years of operation, it had adequate operating capital, and maintenance items were addressed on an as-needed basis. During the last ten years, however, rents did not increase at the same rate as operating expenses, and certain building systems began to deteriorate. As a result, serious deferred maintenance items must now be addressed.

The municipal Housing Office realized that the first step toward solving this problem was to obtain more revenues for repairs and improvements. To justify requesting additional funds, however, the Housing Office had to compile a physical needs assessment and a three-year plan during which these needs would be addressed.

With the help of the housing manager, the Housing Office hired a construction expert to help determine the building's physical needs, to prioritize those needs, and to provide cost estimates for the work. It was determined that during the next three years various items would need to be repaired or replaced in order for the building to remain in satisfactory condition. If all these items were addressed, then very little would have to be spent on maintenance during the following five years, and the implementation of proper preventive maintenance techniques could extend this estimate to seven to ten years.

The report of the construction expert included a list of deferred maintenance items and cost estimates for addressing each of these items (Figure 5). After receiving this report, the Housing Office realized that paying for these repairs out of the building's current revenues would be impossible. For one thing, as of September 1994, when the budget was being prepared, the balance in the building's Renovation Account was only 149,606 Sk.

The Housing Office decided that it was feasible for the required repairs to be made over a three-year period, from 1995 through 1997, if the monthly deposits to the Renovation Account were increased. The Housing Office first prepared a three-year repair schedule, in which items of the highest priority were addressed first (Figure 6). The schedule gave the timing and cost of each repair or replacement item.

igure 0. List of Deferred Maintenance Items with Cost Estimate

Work Needed	Cost (Sk)
xterior Painting	74,300
oof Replacement	65,680
eplacement of gutters/downspouts	15,200
oncrete repairs	2,000
lasonry repairs	8,000
eplacement of domestic hot water system	119,747
eplacement of boilers	42,000
eplacement of exhaust fans	300
eplacement of entry doors and locks	44,500
eplacement of windows at building entry	9,000
eplacement of common area windows, each floor	72,000
otal Anticipated Needs	452,727

The Housing Office then prepared an analysis of the Renovation Account to determine what the shortfall would be each year at the current rate of deposit, 5,778 Sk per month (Figure 7). The analysis revealed that the monthly deposits to the Renovation Account would have to be increased so that shortfalls would not occur during 1996 and 1997.

igure 0. Three Year Capital Repair Plan with Costs

Description of Item	Total (Sk)	1995	1996	1997
aint exterior	74,300	--	60,000	14,300
eplace roof	65,680	20,830	22,395	22,455
eplace gutters/downspouts	15,200	5,000	5,200	5,000
epair concrete	2,000	2,000	--	--
epair masonry	8,000	--	--	8,000
eplace hot water system	119,747	119,747	--	--
eplace boilers	42,000	14,000	14,000	14,000
eplace exhaust fans	300	100	100	100
eplace entry doors and locks	44,500	22,250	10,250	12,000
eplace windows at building entry	9,000	4,500	4,500	--
eplace common area windows	72,000	24,000	24,000	24,000
otal Anticipated Needs	452,727	212,427	140,445	99,855

If the monthly deposits to the Renovation Account were increased to 9,250 Sk starting in January 1995, the priority work items could be addressed, and the account would maintain a positive balance throughout the three-year period. The account fluctuation analysis at the new rate of deposit is given in Figure 8. If the municipality had the authority to raise rents, then the additional funds could be raised in this way. The municipality should consider the impact that an increase in rents would have on poorer tenants, however.[1] Another alternative would be for

As an alternative to rent control, many countries provide housing allowances to families whose incomes are insuffi cient to afford adequate sing. The amount of the allowance depends on the size of the family's income and the cost of housing. This permits rents to be raised to marke ls, while at the same time protecting poor families who would not otherwise be able to afford adequate housing. For more information on sing allowances, see Mikelsons, 1993.

rve for Replacement Account Analysis

ance as of 9/30/94	149,606		
Plus deposits, 10/94 - 12/94		17,334	
Less withdrawals, 10/94-12/94		0	
e as of 12/31/94			166,940
Plus deposits, 1/95 - 12/95		69,336	
Less 1995 estimated expenditures		212,427	
e as of 12/31/95			23,849
Plus deposits, 1/96 - 12/96		69,336	
Less 1996 estimated expenditures		140,445	

the municipality to provide subsidies to the housing system to increase the funds available for renovations. This may be difficult, however, if the municipality already lacks sufficient funds for other expenditures, like repairing roads.

Figure 0. Reserve for Replacement Account Analysis

Account balance as of 9/30/94	149,606		
Plus deposits, 10/94 - 12/94		17,334	
Less withdrawals, 10/94-12/94		0	
Account balance as of 12/31/94			166,940
Plus deposits, 1/95 - 12/95		69,336	
Less 1995 estimated expenditures		212,427	
Account balance as of 12/31/95			23,849
Plus deposits, 1/96 - 12/96		69,336	
Less 1996 estimated expenditures		140,445	
Account balance as of 12/31/96			<47,260>
Plus deposits, 1/97 - 12/97		69,336	
Less 1997 estimated expenditures		99,855	
Account balance as of 12/31/97			<77,779>

Although at this moment the municipality may lack reasonable solutions to the problem of funding the types of renovations described in this example, this type of planning exercise is useful for several reasons. First, it gives the municipality an idea of the size and the types of repair needs in its properties. Such information can help the municipality formulate a housing privatization program. Second, it provides a basis for deciding how to prioritize repairs among different buildings. For instance, buildings with only minor needs for renovation may be able to forego these repairs for several years while attention is paid to properties in a more severe state of disrepair. Finally, the repair estimates obtained can be used to justify requests for increased rents or housing subsidies.

ce as of 12/31/96		<47,260>
Plus deposits, 1/97 - 12/97	69,336	
Less 1997 estimated expenditures	99,855	
ce as of 12/31/97		<77,779>

Figure 0. New Reserve for Replacement Account Analysis

Account balance as of 9/30/94	149,606		
Plus deposits, 10/94 - 12/94		17,334	
Less withdrawals, 10/94-12/94		0	
Account balance as of 12/31/94			166,940
Plus deposits, 1/95 - 12/95		111,000	
Less 1995 estimated expenditures		212,427	
Account balance as of 12/31/95			65,513
Plus deposits, 1/96 - 12/96		111,000	
Less 1996 estimated expenditures		140,445	
Account balance as of 12/31/96			36,068
Plus deposits, 1/97 - 12/97		111,000	
Less 1997 estimated expenditures		99,855	
Account balance as of 12/31/97			472,130

FINANCIAL STATEMENTS

Once the operating and capital budgets have been established, the manager must put in place a financial management system to monitor the actual financial performance of the property. Financial performance is one way that the owner and the manager can determine whether the management objectives for the property are being met.

Regular financial statements or reports are the most important output of the financial management system. Depending on which financial report is being reviewed, the reports indicate either the property's financial condition at a given point in time, or they indicate how the property is performing against projections. **Financial statements are the means by which the performance of the property can be measured.** The performance is measured against budget projections, in the form of budgeted versus actual income and expenditures; and against industry norms, legal documents, and the requirements of the management agreement.

The manager and the owner should agree on what types of financial statements the manager should provide to the owner, and how often. They should also agree on the reporting period for the financial statements (monthly or quarterly). Usually, these requirements are specified in the management agreement.

Some Basic Accounting Principles[1]

Before discussing the use of the financial statements as a tool, some basic accounting principles must be understood. The housing manager must be familiar with the method of accounting used as the basis of the financial statement he is reviewing.

For the purposes of this review two basic methods of recognizing income and expenses are considered: the cash method of accounting and the accrual method of accounting. Under the **cash method** of accounting, income is recognized when it is *received* and expenses are recognized when they are *paid*. Under the **accrual method** of accounting, income is recognized when it is *earned* and expenses are recognized when they are *incurred*. The distinction is important and should be clearly understood. Here are two examples illustrating these principles:

Example 1: **Income -** Building XYZ requires that rents be paid monthly. Resident Zanyiova pays her rent for January on February 2.

Using the **cash method** of accounting, the income related to Zanyiova's rent would appear on the February financial statement—**the month in which the income was *received.***

Using the **accrual method** of accounting, however, the income related to Zanyiova's rent would appear on the January financial statement—**the month in which the income was *earned.***

Example 2: **Expenses -** Building XYZ purchases office supplies in January. The supplier bills the building in February, and the bill is paid in February.

Using the **cash method** of accounting the expense related to the purchase would appear on the February financial statement—**the month the bill was *paid.***

Using the **accrual method** of accounting, the expense related to the supplies would appear on the January financial statement—**the month the expense was *incurred.***

Under generally-accepted accounting principles, **the accrual method of accounting is viewed to present a more accurate picture of a business's true financial position.** Particularly by recognizing expenses when they are incurred, surprises are less likely since those involved realize there is an obligation even if a vendor takes several months to send a bill. Under the cash approach, it is possible to be unaware that an expense is coming up. Because of this, funds may be used for something else and then not be available by the time the bill is received.

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[1] This discussion is intended to help the manager learn to use the financial statements as a tool to monitor the financial performance of the ıerty. The intent here is not to give a complete explanation of accounting principles. However, to manage property finances properly, the ager must have a basic understanding of accounting practices and the purpose and interpretation of each financial report.

Under current law, all enterprises except those with very small budgets are required to use the accrual method of accounting.[3]

Cash Flow

A **cash flow analysis** is a projection—from month to month, quarter to quarter, or year to year—of the actual cash receipts and actual cash disbursements anticipated, indicating the month, quarter, or year in which they are anticipated. This projection becomes part of the financial statement and is helpful in reviewing performance of the budget versus actual expenditures.

Once the operating and capital budgets have been prepared, it is possible to use them as a basis for projecting cash flow. **Each category of income should be projected separately,** starting with rent. The cash flow projection should be based on projected occupancy levels and should take into account any projected vacancy losses due to turnover times, inability to keep the property fully occupied, or units that are uninhabitable or taken out of use for any reason.

For example, if in a typical year the average vacancy is six units for one month each, and no rent is received during that period, then the total projected rental income would have to be decreased by that amount, and the months in which each unit might be vacant (for projection purposes) should show on the cash flow projection. If the rent varies by unit type, and more than one type of unit may be vacant, that should be taken into account as well.

If there is an established pattern of delinquent payments (for example, 2 percent of total payments) then the actual payment patterns anticipated should be reflected in the cash flow projections. If, for some reason, there are seasonal variations in cash receipts (as there would be, for example, in a resort hotel facility), then such seasonal variations would need to be reflected as well.

Disbursements for expenses should be projected based on the actual times at which particular events are likely to occur, and should reflect seasonal variations in costs (such as for heating and hot water). For example, if roof repairs are budgeted for the coming year, they must be done during the warmer months, so those disbursements will normally be made during that time as well. Similarly, heating hot water costs (and the corresponding disbursements to pay the bills) are higher during the winter months. In both cases, the cash flow projection should show when the cash is actually projected to be disbursed.

Once both the cash receipts (income) and the cash disbursements (expenses) have been projected, for example monthly, then it is possible to determine the actual cash that will be on

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[3] See the "Act on Accounting," No. 563/1991 Coll. of 12 December 1991, Section 9 and Section 24(1)(a).

hand (or the actual cash shortage) at the end of each month, and cumulatively as the year progresses.

If this analysis reveals that the property will not have sufficient funds to pay for all expenses, then the manager and the owner need to decide how to address the shortage. It may be necessary to defer certain activities projected for the year, strengthen collection procedures and policies, change rent or maintenance charge levels (if possible), or find more efficient and cost-effective ways of operating the property.

Balance Sheet

The **balance sheet** presents a "picture" of the property's financial position as of a given date (usually the end of the reporting period). It includes the property's status as to its assets, liabilities, and fund balance or owner's equity.

Assets are all of the negotiable holdings of the property. They include:

- **Cash**—money held at the management company or deposited in bank accounts
- **Accounts Receivable**—sums owed to the property (from residents) or others that have not yet been received
- **Furnishings & Equipment**—items that could readily be sold and that may be depreciated for tax purposes
- **Other Negotiable Items**—items such as units owned by the property, vehicles, machinery, etc.

Liabilities are the portion of those assets on which others have a claim. They include:

- **Accounts Payable** —bills owed to others but not yet paid
- **Notes Payable**—loans which the property must repay
- **Prepaid Rent or Fees**—the amounts that would have to be refunded to those who prepaid them if the business were terminated.

The **fund balance** or **owner's equity** is the portion of the assets left over after all others' claims have been satisfied. This includes:

- **Working or Contributed Capital**—the initial start-up funds of the business, to the extent they were not totally used
- **Reserves**—funds for major repairs and replacement

The relationship between assets, liabilities, and owner's equity is governed by the **accounting equation.** This basic relationship always holds true: **Assets** (everything negotiable) **minus liabilities** (the portion of those assets on which others have a claim) **equals owner's equity** (the portion of the assets remaining after all others' claims have been satisfied). Or, in mathematical notation:

ASSETS - LIABILITIES = EQUITY

This may also be stated as it typically appears on the balance sheet:

ASSETS = LIABILITIES + EQUITY

The housing manager should be familiar with these terms and their use on the balance sheet. When reviewing the property's financial position each month, the manager should examine the balance sheet and determine the answers to the following questions:

- **Are the Reserves fully funded?** Determine by subtracting all accounts payable from "Total Cash." If there are funds remaining, and if those funds are equal to or exceed the amount shown by "Reserves,"then the Reserves are fully funded. If the cash remaining after paying all obligations is less than the "Reserves" amount, or if there is not even enough cash to pay all obligations, then the Reserves are not fully funded.

- **Does the property have enough cash to pay its bills?** Determine by subtracting all accounts payable from "Total Cash." If there are funds remaining, or if Total Cash equals the amount of the accounts payable, then there is enough cash to pay all bills.

- **Are Accounts Receivable increasing or decreasing? If they are increasing, why? Is any action required?** If the level of Accounts Receivable is increasing, it may be an indication that collection activities are not effective. Corrective measures should be taken if this is the problem or if there will be a time when funds are not sufficient to meet budgeted obligations.

- **What is the trend on Accounts Payable?** If they are at disproportionately high levels, or if there is an increase from month to month, then the property is probably already experiencing a cash shortfall. Action is required.

The manager should provide the answers to the owner in the financial narrative that is part of the management report (see below).

A sample Balance Sheet may be found in Attachment A.

Operating Statement

The **operating statement**, which is also referred to as the **income statement** or the **statement of income and expenses**, is a summary of all the transactions that have taken place during the reporting period and the results of those transactions. The operating statement shows all income and expenses by budget line item. It serves as a valuable management information tool if those income and expense line items are shown in an "actual" versus "budget" format, for both the current period and the year-to-date.

When reviewing the operating statement, the manager should ask, and obtain answers to report to the owner about, the following questions:

- **How is the property performing when compared to the budget—for individual line items, for major budget categories, and overall?** Often there will be a variance in a line item for the month that will be balance out either on the year-to-date comparison or for the major budget category of which the line item is a part. Nevertheless, any significant variances (more than five percent of the total budget) should be explained. By finding the explanations for variances, the manager becomes more familiar with the property and its trends and is better able to spot true problems as they are emerging, rather than when they have already created a crisis.

- **What is the "bottom line?"** By examining the last line on the operating statement, "NET INCOME OR LOSS," the manager can gauge the overall performance of the property. If there is a net profit (income), then it adds to owners equity (on the balance sheet). If there is a net profit in a month for which a deficit was projected, then this may suggest a problem (perhaps expenses were not as high as they should have been because some important expenditure did not take place).

A sample Operating Statement may be found in Attachment B.

Disbursements Summary

The **disbursements summary** is a list of disbursements made during the reporting period. The statement should identify at least the following:

- the **payee** (the person or firm to whom the check was written or the cash was paid)
- the **date of the disbursement**
- the **check number** (if applicable)
- the **amount** of the disbursement
- the **account** to which it was charged

The manager should use this report to verify that all disbursements actually made were reported and to check that no inappropriate or unauthorized disbursements were made.

A sample Disbursements Summary may be found in Attachment C.

Receipts Statement

The **receipts statement** lists all tenant payments received in the past month and indicates the current balance for the tenant (positive if the tenant owes money, and negative if the tenant has overpaid). The manager should use this report to monitor the tenants' payment patterns as well as the effectiveness of collection activities. If the past due amount in a tenant's account increases from one month to the next, the manager needs to ensure that appropriate collection activities are taking place.

A sample Receipts Statement may be found in Attachment D.

General Ledger

The **general ledger** is the complete list of all financial transactions that have taken place during the reporting period, listed by account. For each account, the general ledger shows the beginning balance, any activity that took place in that account during the reporting period, and the ending balance at the conclusion of the reporting period. These ending balances also appear on the balance sheet and operating statement for the period.

If there is any question about a particular item on the balance sheet or operating statement, the answer can often be found by examining the specific transactions in the appropriate account of the general ledger.

A sample General Ledger report may be found in Attachment E.

Monthly Spread Report

Once the annual operating budget has been adopted, it should be "spread" to show the anticipated income and expenses for each month (or quarter) in the year. The spread should reflect all normal seasonal fluctuations in expenses as well as any other expenses that may vary from one month to the next. This spread is the basis for the budget versus actual comparisons that appear in the Operating Statement.

The financial statements should include a **monthly spread report,** which shows the actual expenses for the month just completed and the budgeted expenses for the balance of the year, with a total for each line item. In this way it is easier to monitor the influence of any unexpected financial activity on the year-end projections.

A sample Monthly Spread Report may be found in Attachment F.

Financial Narrative

One of the manager's responsibilities is to report to the owner on the financial condition of the property. While the financial statements show the financial activity and position of the property, **the manager's financial narrative explains the significance of the information and addresses any items that require explanation or action.**

The manager's written financial narrative should accompany each financial statement provided to the owner. From the information provided in the financial statements and the manager's narrative, the owner can see very quickly whether the financial objectives for the property are being met, and if not, why.

The financial narrative should address the following issues:

- Changes in fund balances (as shown on the Balance Sheet) from one period to the next (such as significant increases or decreases in Total Cash, in Accounts Receivable, and in Accounts Payable)

- Whether Reserves are fully funded
- Whether Owners Equity is increasing or decreasing and why
- For all significant differences between the budgeted versus actual amounts on the Operating Statement, why the difference occurred and whether it is likely to persist or to be eliminated as the year progresses

INCOME COLLECTION

One key to success in any business is to **ensure that all money owed to the business is collected in a timely manner**. This requires putting into place effective policies and procedures to handle billing and collections. In accounting terms, these tasks are called **accounts receivable** activities.

The accounts receivable function starts with the adoption of appropriate policies that address how collection activities are handled by the management company (internal policies) and the requirements and procedures for tenants to make their payments (collections policies). These policies should be in writing, and all appropriate employees of the management company should be familiar with them.

Internal policies should include at least the following, complying with generally-accepted accounting principles:

- **Cash handling duties should be separated between two or more positions** so that the opportunity for theft or mishandling is minimized through appropriate checks and balances. For example, the person who receives, codes, and adds up the cash receipts should be a different person from the one who prepares bank deposits and reconciles bank statements. A third person should prepare the financial statements that report cash receipts.
- **All property-generated income should be clearly identified with a specific property.** By using proper account coding of deposits the manager should make sure that funds from one property are not mixed with those of another. If possible, it is best to establish separate bank accounts for different properties operated by the management company.
- **The management company should establish internal quality-control reviews** to ensure that all policies and procedures are being followed.
- **An accounting firm should conduct an annual independent audit of the financial records** to ensure that the financial statements accurately represent the true status of the properties' finances.

Collection policies should be in writing and should address at least the following:

- **Billing or invoicing of tenants.** The policy should explain how tenants will be informed as to the amount of their rent and other charges. If these charges change, the policy should state how and when the tenants will be notified. For example, the tenants could be notified through a registered letter 30 days before the change takes effect.

- **The due date for payments.** The policy should state the date on which rent and other payments from the tenants are due.

- **Payment methods.** The policy should list the forms of payment that the management company will accept. These may include cash payments at the management company's office, postal checks, or transferring money into the property's bank account.

- **Notification of past due balances on the tenant's account.** The policy should explain what action the management company will take to notify the tenant if payment has not been received by the required due date.

- **Legal Action.** The policy should state whether legal action will be taken to collect payments past due and, if so, the nature of the action. Legal action may include obtaining a legal judgement against the tenant; garnishing salaries, wages or bank accounts; or requesting a court order to evict the tenant for nonpayment of rent.

For a rental property, collection policies should be an integral part of the lease agreement. The management company staff who are responsible for collections should have a copy of the policy.

To ensure that payments are credited to the proper resident and property account, it may be desirable to issue **monthly payment coupons** that contain such information as the address and identification number of the building, the apartment number, the tenant's name, the amount of rent and other charges, and a message regarding the payment due date and the amount and date of the late charge if payment is not received on time. Tenants would be required to send or bring in each month's coupon with their payment.

The manager must keep proper records on each tenant's payment history. These records include the amounts charged to the tenant's account (including extra charges such as late fees, fines, or charges for maintenance done in the tenant's apartment), the date the payment is to be made, the date payment is received, and any notes or comments to explain the information (such as whether the account has been turned over to an attorney for collection actions).

The manager must also establish procedures for receiving and responding to resident inquiries and calls as to the status of their account, maintaining appropriate supporting files and documentation, issuing statements of account as appropriate, tracking collection and legal activities, and providing appropriate documentation to the auditor for the annual independent audit.

PAYING BILLS

Receiving, recording, paying, and reporting on the financial obligations of the property are **accounts payable** functions. These include policies and procedures related to purchasing (see Chapter III), approval and processing of bills, disbursements, and record keeping and reporting.

Accounts payable policies may also be divided into **internal** and **client policies**.

Internal policies that should be implemented include:

- **Appropriate controls should be instituted** to ensure that no one person could improperly take or use funds and that, should any attempt be made to do so, there would be a record of such an activity.
- **The only persons with authority** to disburse funds should be principals of the management company (even though the management company employees may be able to **incur** expenses).

Client policies should include:

- **Appropriate purchasing guidelines, policies, and procedures should be instituted** to limit the purchasing authority of the management company employees to the needs of the property and the level of authority of the individual. See Chapter III for more on purchasing guidelines.
- **Purchase orders should be controlled and tracked.** Purchase orders should be issued in numeric sequence and signed out to specific individuals. All purchase orders must be signed by the person issuing the purchase order and the person authorizing the purchase. Purchase orders should be recorded in a log that contains the purchase order number, the date it was issued, the name of the vendor or supplier to whom the order was issued, the purpose of the item or service to be purchased, the accounts to which the expense is to be charged, the amount of the purchase order, and the names of the persons issuing and authorizing the purchase order.
- **Cash transactions should be limited**. Because cash is much harder to track and control than postal orders or bank transfers, the use of cash should be limited to purchases below a certain amount (for example, 500 Sk). This limit should not be so low, however, that small transactions become too time-consuming and impractical. Any cash transactions should be accompanied by a dated receipt with signatures of the issuer and recipient.

In addition, the manager must establish policies to cover the following:

- Procedures for employees concerning reviewing, coding, and approving invoices, including circumstances in which it is appropriate to “hold” an invoice (such as when completion or quality of the work by a contractor is in dispute)
- Procedures for a final review of an invoice before a payment is sent

- A means to log in; assign to an account; assign to a financial statement account; and track, pay, and record invoices, for both the month and the year to date
- A procedure for “recoding” a transaction if it was inadvertently coded to the wrong account

As with the receipt of tenant payments, it is best if the tasks for paying invoices are separated between two or more employees. For instance, one person could be responsible for reviewing and recording invoices received, another person for assigning accounts to the invoice payments, and a third person for actually issuing the payment through a postal order or bank transfer.

IV.

V.

PURCHASING AND INVENTORY CONTROL

This chapter discusses the topics of purchasing and inventory control. **Purchasing** is the process of buying goods and services from the best possible provider at the best possible price. **Inventory control** is the process of tracking the costs of parts and supplies, ensuring that parts and supplies are available when needed, and minimizing losses due to theft or unauthorized usage.

Purchasing involves establishing service specifications, obtaining competitive bids and reviewing bidder qualifications, placing a contract or order, and supervising and evaluating the performance under the contract as well as comparison shopping and negotiating to obtain the best price for parts and supplies.

Inventory control involves determining the parts and supplies to be inventoried (kept on hand) and those that will be purchased on an as needed basis. For those parts and supplies that will be maintained in the management company's inventory, the manager wants to purchase them at the best possible price through the purchasing process. These goods must be stored securely, and a system must be put in place to control the removal of parts and supplies, to monitor the inventory to determine whether items are missing and when restocking supplies is necessary, and to track the costs of supplies purchased and used. The system should be able to charge the use of supplies to tenants where appropriate.

After mastering the concepts in this chapter, the manager will be able to:

- Work with the owner or owners to develop program and service objectives reflecting the needs of the property
- Develop appropriate specifications for the solicitation of service contracts
- Review and evaluate proposals received from bidders, comparing and checking them against each other
- Award a contract
- Properly supervise a contractor

- Comparison shop and negotiate for the best price on parts and supplies
- Establish purchasing guidelines and policies
- Establish and maintain an inventory control system

PURCHASING

Purchasing is the process of buying goods and services from the best possible provider at the best possible price. For example, goods purchased may include plumbing supplies (such as replacement toilet parts, faucet washers, caulking and sealants, and other hardware) routinely used to perform in-unit maintenance and repairs; light bulbs for common area fixtures; replacement glass for common area windows; cleaning liquids and supplies for cleaning common area floors, windows, and other surfaces; hand tools and maintenance equipment; paint for common area touch-up painting; or hardware for common area doors.

Possible services that may be obtained from contractors include cleaning of stairwells, corridors, and other interior common areas; trash pick-up on the surrounding grounds; pest control; snow removal; grounds or landscape maintenance; elevator maintenance; non-routine services such as concrete repairs, major painting projects, or major roof repairs or replacement; an annual outside audit of the property's financial records; or legal services.

Purchasing Parts and Supplies

The process of purchasing parts and supplies involves several steps. First, the manager should determine which maintenance and other tasks will be handled by the employees of the management company and which will be handled by an outside contractor. Generally, it will only be necessary to maintain an inventory of materials needed for the tasks done by management company employees. For tasks assigned to an outside contractor or provider, it should be the contractor's responsibility to provide necessary tools, equipment, parts, and supplies **unless the manager has found that she can obtain better prices by providing certain supplies herself**.

After determining which tasks will be handled by staff, the manager should list the **tools, equipment, supplies, and parts** that she will routinely need to perform the tasks. For example, if staff will handle stairwell, entry, and common area cleaning, then the management company will need to purchase brooms and mops, water buckets, window cleaning products, paper towels, polishing cloths, scrub brushes of various types and sizes, floor cleaning products, and so forth.

The manager should then develop such a list for each task and also determine the quantities required for each item. Some items will be one-time purchases that will not normally need to be replaced except for loss, breakage, or theft (such as ladders or garbage cans). Other items will be recurring purchases for supplies that will be depleted through use (such as light bulbs, cleaning products, or spare parts for mechanical equipment). The quantities of materials that can be stocked may be limited by available secure storage space. Before determining quantities, the manager should survey available storage space and determine which spaces will be used to store which items. For one-time purchases, the manager will only need to buy enough to initially stock the building. For recurring purchases, the manager must make an initial projection as to the frequency of restocking, as this information will be part of the process of negotiating prices.

Once the full list for all tasks has been completed, then tools, equipment, supplies, and parts should be grouped appropriately according to which items are typically available from various types of suppliers. The list (or lists if they have been divided into various groupings) should then be used to approach several (ideally, at least three) suppliers. Suppliers should be requested to quote their best price for the materials, in writing, specifically indicating which tools, equipment, supplies, or parts they would be providing. Each bidder should also give the manager the following information:

- **The length of time they have been in business**. This may not be such an important factor now, since most private businesses have only started in the last five years. However, as the market economy expands and businesses flourish or die, it is important to know if the provider will be around when the need arises.
- **Warranties and guarantees** offered on parts, equipment, and tools.
- **References** from others obtaining materials from this provider, so that the manager can determine the quality and consistency of service and the levels of satisfaction of other customers.

Once the manager has obtained the written price quotes and relevant information about each bidder, she can prepare a spreadsheet or chart comparing the information received for each bidder. By analyzing a spreadsheet or chart, it is easier to compare bidders on a point-by-point basis so that the manager can make an objective decision.

As a practical matter, it is best to group potential providers by category, as it is unlikely that any one provider will offer all of the tools, equipment, parts, and supplies required. Therefore, the manager will have different charts for different categories of materials. Based on the analysis of the comparative data for the bidders, the manager can select the providers with whom she wishes to establish an ongoing business relationship. Once the manager has made that selection, it is often beneficial to approach the bidders again to see if they can improve their prices any further. A provider may further reduce prices in exchange for long-term repeat business.

After obtaining the "best and final price" from each provider, the manager can place the initial order. The order should be in writing and itemized and should state the quantities and agreed price of each item. The particular type, model, style, size, and color (as appropriate) of each item should be included in the order.

When the materials arrive, the manager must check to see if all items ordered have been received and are in good condition. If not, the provider should be contacted immediately to correct the problem.

Establishing Purchasing Policies and Guidelines

Once the manager has supervised the initial acquisition of materials for each property, it is necessary to establish an ongoing purchasing program, with appropriate policies, guidelines, controls, and procedures. The purchasing system should be integrated smoothly into the inventory control system described below. The purchasing system should address at least the following: persons who have authority to incur expenses on behalf of the management company; expenditure limits and approvals required; purchasing policies and procedures; and controls to ensure that what was purchased was received and that it was received by the intended party.

Purchasing authority is the authority to incur expenses, financially obligate the building, and spend money. This authority may be granted to as many or as few people as the manager desires. The more people who have such authority, however, the more difficult it is to control spending. The number of people who should have purchasing authority will depend upon the size of the management company's operations. In a very large company with a large staff, there may be a number of persons to whom it would be appropriate to grant purchasing authority. If too few persons are granted the authority, however, it may be difficult for the company to function if one or more key people are absent.

Expenditure limits are the limitations on expenses that may be incurred by any one person without obtaining approval from a higher authority. These limits may vary from one property to another: a small property with limited financial activity will have much lower limits than a large property with a large number of transactions and significant funds to manage.

Expenditure limits are generally established on a hierarchical basis, with the property owner (or, in a building that has been privatized, the executive body representing the owners) having virtually unlimited spending authority, constrained only by the financial limitations of the property itself.

Next in the expenditure limit hierarchy is the housing manager. The limits on the housing manager's expenditures should be stated in the management agreement and may take several forms. Typically, the manager is given automatic disbursement authority for payment of bills for utilities, approved contract services (unless payment is contested by the owner or the manager due to performance problems), budgeted items within budgeted amounts, payroll, and insurance premiums. The management agreement also typically allows for some emergency expenditure authority up to a stated amount. Nevertheless, this emergency authority is conditioned by the requirement to notify the owner as soon as practicable after the emergency. The level of emergency expenditure authority should be mutually agreed between the owner and the manager based on the needs of the particular property.

The staff of the management company typically has expenditure authority up to a specifically-stated amount, set forth in written purchasing or spending guidelines set by the housing manager. These guidelines should be developed with a sensitivity to the needs of specific properties and the capabilities and level of experience and responsibility of the staff. For example, in a large property where the staff must operate with a high level of autonomy, have significant experience, and have earned a high level of trust, the expenditure limit will generally be higher than that of a small property under the care of less experienced staff.

In each case, **if the amount required for a particular service or material exceeds the expenditure limit, then the person making the request must seek approval from the next person up in the hierarchy.** Therefore, the housing manager can approve expenditures beyond the limits placed on the management company staff, and the owner can approve expenditures beyond the limits on the housing manager.

The manager should develop written purchasing policies, procedures, and guidelines for the management company staff to follow. These written materials should address expenditure limits; the purchasing process; and any required forms, logs, etc. used in the system. It may be necessary to create separate sets of policies for different properties if they are to be governed by different operating rules.

The purchasing policies are usually structured around a purchase order system. A **purchase order** is a written form sent to a vendor to request specific goods or services. A purchase order form should include at least the following information:

- The property name and/or project number.
- The purchase order number. **Purchase orders should be numbered sequentially and signed out to a specific person to prevent unauthorized use.**
- Who is ordering the product or service.
- Who is supplying the product.
- The location where the product should be delivered or the service performed.
- The billing address where the invoice should be sent.
- The order date.
- Who placed the order.
- Who approved the order.
- Payment terms, including the total amount due, any early payment discounts or late payment penalties or late charges, interest on unpaid portions, etc.
- The means by which the order will be shipped (e.g., postal service, parcel service, express delivery service, etc.)
- A blank space for entering the date the items ordered were received.
- The name, description, and model or stock number of each item ordered.
- The account code, from the chart of accounts used on the budget and financial reports, to which each item should be charged.

- Number of products of each type ordered.
- The individual cost per product.
- The total cost for each item (quantity ordered multiplied by the unit price).
- The total cost of all items ordered.
- Delivery costs, if any.
- Taxes, if any.
- The total cost of the order.
- The amount of any credits due from the supplier for previous transactions.

Procuring Services Through a Request for Proposals

The process of procuring either routine recurring services or special services that may be necessary from time to time is very similar to that of purchasing materials. The primary difference lies in developing the scope and specifications for the work to be done. These criteria, as well as other information necessary to enable bidders to submit proper proposals, are included in a written **request for proposals.**

The request for proposals should include at least the following information:

- Name and address of the property.
- Name, title, company name, address, and telephone number of the person that the bidders should contact if they have questions and to whom they should address their proposals.
- A summary description of the work to be done. For example: trash hauling services, pest control, or roof replacement.
- Scope of the work to be done. For example, in a property where there is more than one building but only one needs a roof replacement, the scope would say: “Replace the roof of building, which is 300 square meters in area.”
- Specifications for how the work is to be done. For example, if the request were for someone to provide the service of trash removal:

The contractor shall provide one (1) fifty cubic meter (50 m^3) trash container. Trash shall be collected two (2) times per week. The contractor shall pick up and remove any trash that drops during trash collection. Trash collection shall take place during the hours of 6:30 and 8:30am on weekdays. The contractor shall provide one special trash pickup per year for oversized items such as appliances and furniture.

- Terms and conditions. This section would include any applicable legal provisions and contain other provisions designed to protect the property’s interests. By way of example, such provisions might include the following:

The management company may withhold payment on a pro rata basis for any missed pickups, unless they are due to extreme weather conditions, acts of God, and other circumstances beyond the control of the contractor. Personnel and equipment difficulties are *the responsibility of the contractor and are not included in the exceptions above for circumstances beyond the control of the contractor.*

All damage or injury to persons or property that arise as a direct result of trash removal activities shall be the sole responsibility of the contractor, and the contractor agrees to indemnify and hold harmless the management company and the property owner for any such damage or injury.

The property assumes no liability or responsibility for any injury to the contractor's employees that may occur in the course of the contractor's activities. Such liability and responsibility are solely the contractor's.

- Any other provisions deemed necessary or appropriate to the property or service requirements. While every effort should be made to protect the property's interests, the manager should exercise care that the provisions are reasonable and realistic in terms of current business practices. Any single requirement placed on the contractor should not be so expensive that the fees quoted are significantly beyond a comparable level and type of service without that particular requirement.

When there is no tradition of a request for proposals process for a particular service or industry, it is often helpful to have a draft request for proposals reviewed by a competent and disinterested third party. Often this will be a well-reputed contractor in the same industry from another town who will not be included on the list of bidders. Such a reviewer can provide an indication as to whether potential providers can actually meet the requirements and conditions of the request for proposals and can often provide suggestions for additional provisions to include. They will sometimes alert the manager to provisions that contractors will ask to be included in the final contract to protect the contractors' interests.

In cases where a particular service requires specific, technical expertise, the manager may wish to contract with a third party to prepare a request for proposals on its behalf, conduct the bidding and selection process, and supervise the performance of the work. An example of such a situation is a roof replacement project. Roofing materials must be installed properly to avoid leaks or premature failure. Therefore, it is advisable for the manager to hire a roofing expert to develop the request for proposals and to oversee the work performed. **The selection of such an outside expert should involve as much care as the selection process for the desired service.**

Once the specific tasks have been defined, there are other issues that the manager must consider:

- What is the schedule for hiring the contractor? What should be the deadline for submitting proposals? When will the final selections be made?
- Are there any municipal requirements or certifications that a prospective contractor must meet? Must the firm have any licenses or registrations to be eligible for consideration? Is there any type of insurance that the firm must carry?
- What skills does the manager want to emphasize? Are certain skills, experience, or education so important that a prospective manager should not respond unless he meets these criteria?

- How will the selection process work? Will the manager require only written proposals? Will there be interviews? Will the contractor have to provide a specified number and type of references?

- How will the manager evaluate the responses? Will all qualifications be considered equally important, or will some qualifications be given more weight than others? Will a rating system be used with points assigned to each criteria?

- Will there be a required format for the proposal? Where and when must the proposals be submitted? How many copies of the proposal must the manager provide?

- How will prospective contractors by contacted? Is there an existing list of “pre-qualified” companies who will be notified by mail? Will a general notice be posted at the city hall or in the newspaper?

- How will firms receive the request for proposals? Can companies request a copy by mail? Must they pick up copies at a specified time and location? Will the companies have to pay for the request for proposals?

An outline of a typical request for proposals is presented in Attachment G. The information in the request for proposals should be presented in a clear and concise manner so that there is no confusion on the part of the bidders. The manager will want to state the information in a way that requires the contractors to think about their responses, not simply repeat information that has already been provided. The goal of the request for proposals is to solicit as much relevant information as possible and to have that information presented in a way that shows whether the bidder clearly understands what the manager needs.

Once the request for proposals has been developed and is acceptable to key decision-makers (including the manager and the owner), it should be issued to qualified prospective bidders. Potential bidders may be found by making inquiries within the industry represented by that particular field of expertise, checking with other managers, and soliciting suggestions from the owner.

As part of the distribution of the request for proposals, the manager may wish to hold a **Pre-Bid Conference**. This is a meeting at which specific questions regarding the request for proposals may be answered and additional information provided by the manager. A tour and inspection of one or more properties may also be provided at that time (or this may be done later). The manager may make attendance at the Pre-Bid Conference a requirement for all firms who wish to submit a proposal.

Selecting Contractors

Once the management company has received all of the proposals, it must begin the process of selecting one or more contractors. In developing a selection process, the goal is to create a fair and impartial opportunity for all eligible bidders to demonstrate their ability to complete the necessary work. To achieve this goal, a detailed selection process should be set up in advance that clearly explains how the proposals will be judged and how the decision of which firms to hire will be made.

The following items should be considered in formulating selection criteria:

- What skills must the bidder display? Are some skills more important than others?
- Will the decision be made by a committee? If so, who will be on the committee? How will the decision be reached (consensus, a formal vote, etc.)?
- Will there be interviews of all bidders? For the finalists? How will the interviews be conducted? Will there be oral or written questions? Will the bidder be asked to make a presentation? How long will the interview take?
- Will references be required as part of the selection process? Written or oral? Who will contact the references? Will the references be asked a predetermined set of questions?

One possibility is to use a “points” system for ranking each proposal. A maximum number of points could be assigned to different parts of the proposal, and the manager could decide how many points to award to each candidate for each part. This provides a more objective basis for ranking each proposal and allows different parts of the proposal to be weighted according to importance.

An interview can be an important source of information for choosing a contractor. It provides the manager an opportunity to obtain more details on the contractor’s proposal. The manager should prepare a set of questions in advance and keep a written record of the interviews. This will allow an assessment of the selection process should questions arise afterwards.

No matter how the final decision is reached, it is important that the selection process be as straightforward and open as possible. This is especially true since public funds are involved. People must have confidence that the process of choosing contractors is fair and honest.

ESTABLISHING AN EFFECTIVE INVENTORY CONTROL PROGRAM

Inventory control is the process of tracking the costs of parts and supplies, ensuring that parts and supplies are available when needed, and minimizing losses due to theft or unauthorized usage. The first two steps in inventory control, determining the parts and supplies to be inventoried (kept on hand) and ensuring the timely availability of those parts and supplies through the purchasing process, were discussed earlier in this chapter. The remaining steps in the inventory control process will be described here.

The manager should locate areas that are available for storage or could be readily converted to storage areas. These areas may be either in the main or field offices of the management company, or on the managed properties themselves. In designating storage areas, the manager should look for locations that will be as convenient as possible for the persons using the items being stored. The farther away the storage area is, particularly for maintenance and repair functions, the more time the task requires and therefore the more expensive it becomes.

The storage area should be dry and not subject to extremes of heat or cold. Cleaning supplies, chemicals, and paints may fail to perform at optimal levels under extreme temperatures, and some chemicals become hazardous when they are wet or hot. Paper products become unusable when wet, and many other items may be damaged. Lighting should be adequate throughout the area. It should be possible to lock the area to secure it from unauthorized access and to install shelves, tool racks, and other fixtures that make it easy to inspect inventory levels and to find the desired material.

Once the manager has identified the desired inventory locations, it may be necessary to obtain the permission of the owner and affected residents to convert the area from one use to another, if the location was not originally created for storage. After such permission has been obtained, the area should be set up for storage and inventory control. This may mean installing proper lighting, if the area is not already well-lighted, and installing shelving, peg boards, and hanging racks to accommodate the items to be stored there. Bins may also be used to store materials and parts and arrange them on the shelves by type. For small parts used on a regular basis, a sample part should be secured to the outside of the bin so it can be easily identified. The bins should be labeled with the material or part name, manufacturer, and model number, and the manager should keep a master index of part specifications. If space permits, it may also be useful to install a work surface such as a workbench or large table and electrical outlets to serve the work area.

When stocking materials in the storage room, each box or shelf should be labeled in such a way as to enable easy identification of each item. As each item is placed into the inventory, the manager should compare the quantity against his original supply orders and receipts to ensure that it will be possible to identify the starting inventory levels of each item.

Chemicals, paints, and other materials that may, under certain conditions, be hazardous should only be stored according to the manufacturer's instructions. Staff should be trained in the proper use, handling, storage, and disposal of such items. All such hazardous materials should be clearly labeled, and instructions relative to them should be posted where they can be easily read.

Inventory control sheets should be used to sign supplies into and out of stock. Place inventory control sheets at a convenient location in the storage area. The **inventory control form** should provide the following information:

- Who checked item(s) out of inventory
- Which items and how many were checked out
- When they were checked out

For each item, the manager should set the threshold level at which it is necessary to re-stock that item. This level will depend on the level and frequency of use of the item, and the time required to obtain the replacement stock.

Specific management company employees who have authorized entry to the inventory area should be trained in inventory control procedures and issued keys to the storage areas. In deciding who should have access, the manager should review the tasks to be performed, the circumstances under which they are to be performed and the times when such tasks will be required. For example, if the regular staff work only on Monday through Friday, but there are weekend staff to cover emergencies, then it may be necessary to grant access to one of the weekend employees.

The inventory control system should allow the manager to see how many of each type of item have been used, have been purchased, and are currently in stock. It should also allow the manager to find out the price of each item at the time purchased and the total cost of all such items. Some sort of cross-check system should be put in place so that it is difficult or impossible for someone to subvert the system without it being clear who did so. The manager must monitor the system and the inventory to ensure it is working as intended. On a regular basis the number of items in stock should be compared to the inventory records. Non-consumable items, such as tools and equipment, should also be inventoried on an annual basis.

It is essential to place effective controls on the inventory, as the inventory will comprise a significant investment on the part of the management company. All parts and materials in the inventory, no matter how inexpensive, are part of that investment. If a staff member were to start taking one small part a month at a time, such costs would build up to a sizeable sum before long. Without proper inventory controls, the manager will not be aware that he is missing parts and materials.

INVENTORY CONTROL FORM
FOR NON-CONSUMABLE TOOLS AND EQUIPMENT

PROPERTY: *(insert property name and address)*

DEPARTMENT: *(insert department name, e.g., "Maintenance")*

INVENTORY SHEET NO: *(insert sheet number, e.g., "Sheet 5 of 10")*

LOCATION: *(insert location, e.g., "Basement Maintenance Shop")*

INVENTORIED BY: *(insert name of person performing inventory)*
PRIOR DATE: *(insert date of last inventory)*
DATE: *(insert the date current inventory is taken)*

LIST OF ITEMS IN INVENTORY

DESCRIPTION (include model & type)	QUANTITY	UNIT PRICE	TOTAL COST

Total Value of All Items = ________

INVENTORY CONTROL FORM
FOR CONSUMABLE SUPPLIES AND MATERIALS

PROPERTY: *(insert property name and address)*

DEPARTMENT: *(insert dept. name, e.g., "Maintenance")*

INVENTORY SHEET NO: *(insert sheet number, e.g., "Sheet 5 of 10")*

LOCATION: *(insert location, e.g., "Basement Maintenance Shop")*

ITEM: *(insert description of item, e.g., "Toilet Valve Model #20103"*

INITIAL QUANTITY: *(insert quantity of item initially stocked)*
PURCHASE PRICE: *(insert unit price when purchased)*

INVENTORIED BY: *(insert name of person performing inventory)*
PRIOR DATE: *(insert date of last inventory)*
DATE: *(insert the date current inventory is taken)*

DATE	PERSON	QUANTITY REMOVED	QUANTITY REMAINING	WORK ORDER NO.

VI.

VII.

FACILITIES MAINTENANCE MANAGEMENT

Facilities maintenance management is the ongoing process of preserving a property through inspecting, maintaining, repairing, and replacing building components. Facilities maintenance management is generally performed by a combination of the housing management company staff and service contractors.

As was mentioned in the section on capital budgets in Chapter II, buildings require constant maintenance to maintain their value and to extend their usefulness to the owner and the tenants. **The manager is responsible for maintaining a building's components so that they operate at maximum efficiency and so that the useful life of the property and its systems is extended as long as practicable without producing unscheduled interruptions of service.** The goal of a maintenance program is to preserve the financial and physical performance of the building for the owner and the residents.

The housing manager may use his own employees to carry out some maintenance responsibilities, while for others he may use the services of outside contractors. No matter which approach is used, the manager is ultimately responsible for ensuring that repairs are completed correctly and promptly. Therefore, he must have a working knowledge of the building components to be maintained. If the manager does not already have such knowledge, then he must take training classes, read appropriate manuals, or get information from a technical expert.

The purpose of this chapter is to explain how to develop and implement an effective program of preventive and routine maintenance. Specifically, this chapter will explain how to:

- Survey a property to create an inventory
- Establish repair and maintenance priorities
- Prepare a regular schedule for property inspections and maintenance routines
- Develop and implement a work order system
- Generate a work order report and analyze the results of the repair and maintenance work

THE PHILOSOPHY OF PREVENTIVE MAINTENANCE

The maintenance process has two components: preventive maintenance and routine maintenance. **Preventive maintenance** is the process of scheduling and performing routine care and component replacement to reduce unscheduled interruptions of service. **Routine maintenance** is the process of inspecting equipment and facilities and responding appropriately if conditions deviate from their normal condition, and of responding to requests for repairs from tenants.

A well organized and consistently executed preventive maintenance program is an integral part of a comprehensive facilities management program. **Deferred maintenance**, which is delaying repairs or replacement until a component has failed or broken down, is the opposite of preventive maintenance and is almost always more costly to a property. Deferred maintenance items often create additional damage when they fail. Furthermore, by responding to deferred maintenance problems in a reactive manner, the manager must usually purchase replacement parts on an emergency basis. Under these circumstances, the manager will often pay more for parts because there may be little or no opportunity to shop for the best price or to negotiate. The same holds true for labor costs because equipment tends to fail at the worst possible time, and this may result in premium charges for labor.

It is important to set maintenance goals and meet the scheduled actions. By doing so the manager will prevent deferred maintenance from occurring. By adhering to the principles of preventive maintenance, the manager will be able to maintain the building components in an orderly, predictable manner. The useful life of the building's components will be increased, and the value and usefulness of the property will be preserved.

Preventive Maintenance is the ey to a successful Facilities aintenance Program. Deferred aintenance is the opposite of reventive maintenance and is most always more costly.

In properties with a large number of deferred maintenance items, it may not be possible to address all of the repairs necessary given the financial resources available to the owner. Prioritizing maintenance items is still a useful exercise, however, even if it is not possible to address all maintenance items at the present time. By prioritizing maintenance items, one can see which building components present the most pressing maintenance requirements, and which can be further deferred or dealt with through less costly, temporary measures. With the complete list of maintenance needs, the owner and the manager are in a better position to justify requests for rent increases.

The key to addressing the challenge of deferred maintenance is to identify the maintenance problems, characterize the importance of the repair, estimate the repair cost, and implement a repair plan. The manager must establish routine maintenance tasks and ensure that the necessary work is performed.

SURVEY AND IDENTIFY BUILDING COMPONENTS

The first step in developing a successful maintenance program is to survey the property to identify the components that require routine and preventive maintenance. The property survey accomplishes two important objectives:

- It identifies components that will be placed on a routine and preventive maintenance schedule
- It determines the initial condition of each component

Depending upon the type and size of the property, the property survey will generally be divided into three parts:

- **Structural Components**—Sidewalks, roads, and parking areas that may be part of the property; building exterior surface including windows, masonry, wood siding, etc.; roofs; fencing; entry doors; retaining walls; common area woodwork and plaster surfaces; common area flooring; etc.
- **Mechanical Components**—Heating and hot water distribution systems; furnaces or boilers; domestic hot water heaters; gas supply components; water pumps; fans; plumbing; electrical panels; elevator; fire suppression or annunciation control equipment; etc.
- **Exterior Improvements**—lawn areas; ground cover; paths and walkways; flower beds; shrubbery; trees; trash receptacles; children's play equipment; benches; etc.

The property survey is completed by inspecting the property and completing a property survey form. A sample survey form can be found in Attachment H. The survey form is used to gather the following information:

The property survey form is the amework for the entire aintenance program. All building omponents to be placed in the aintenance program must be cluded in the survey form.

- A list of all building and property components to be included in the routine and preventive maintenance program, divided into three categories: building components, mechanical components, and exterior improvements
- The existing condition of each of each component
- The current repair or replacement cost of each component

For each component listed on the form, the manager should determine the quantity of the component present (for example, number of entry doors), the name of the manufacturer, the model and serial numbers (if applicable), and the location of the component. The manager must also evaluate the existing condition of each component, the cost to bring the component up to acceptable conditions (either by repairing, rebuilding, or replacing the component), the remaining useful life of the component, and the estimated replacement cost for the component when it reaches the end of its useful life. These last two pieces of information are used to develop a capital repair budget, as discussed in Chapter II.

ESTABLISHING MAINTENANCE PRIORITIES

The survey form should allow the anager to fill in all required formation about building omponents. Because buildings ary in number and type of compo- ents, space should be provided the form for listing additional omponents as needed.

Once the manager has completed the survey of building components and has identified the repair or replacement costs for each component, he is ready to establish priorities for initiating repair and replacement activities. There are two basic criteria for establishing priorities:

- The current condition of the component
- The cost of repair or replacement of the component

The current condition of the component is rated on the following scale:

- **"High Priority"** items require immediate attention because they present a current or imminent threat to the health, safety, or welfare of the tenants or items that if left unattended would damage other building components. An **emergency** happens when the component fails and actually interrupts basic services such as heat in the winter, domestic hot water, cold water, or cooking gas.

· **"Moderate Priority"** items are those requiring attention within the next year but that are not subject to imminent failure or breakdown. This includes potential problems that can be managed, such as a masonry wall that requires brick pointing or a leaking roof that can be patched rather than replaced. Moderate priority items are those that can be sustained by preventive maintenance so that they never reach the point of being high priority.

· **"Low Priority"** items require attention within the next five years. Like moderate priority components, a low priority component can be maintained and kept from becoming high priority by proper preventive maintenance. Low priority components tend to be cosmetic, rather than structural or mechanical.

· **"Discretionary Expenditure"** items are not essential to normal building operations but would benefit the appearance, function, or utility of the property. Painting the building lobby is an example of a discretionary expenditure.

· **"Routine Repair and Maintenance"** is used for any function that can be handled on a regular day to day basis by on-site or outside maintenance and engineering personnel.

To make it easier to organize building components according to their repair priorities, each priority is assigned a code number as follows:

1 High Priority
2 Moderate Priority
3 Low Priority
4 Discretionary Expenditure
RM Routine Repair & Maintenance

The costs of repairs are also assigned codes to facilitate establishing priorities:

A Less than 60,000 Sk
B 60,000 to 300,000 Sk
C 300,000 to 600,000 Sk
D 600,000 to 1,500,000 Sk
E 1,500,000 to 3,000,000 Sk
F Greater than 3,000,000 Sk

As the manager conducts the initial building component survey and performs routine inspections, he can establish repair and maintenance priorities based on the costs and conditions of different components. For example, a small roof parapet stone coping with eroded mortar joints would be **"A-RM"** (i.e., the cost of the repair is less than 60,000 Sk, and the problem can be corrected through routine repair and maintenance). A large section of leaking roof might be coded **"B-1"** (i.e., requires immediate attention because it is damaging the structure and units below, affecting both the structural integrity of the building and the habitability of the affected units, and repairs will cost between 60,000 and 300,000 Sk).

The schedule of repair priorities should be an integral part of the ongoing and long-range maintenance program, so that information may be updated as repairs are performed. The revised schedule can then be a resource in developing annual budgets and projecting the funding of the repair or replacement of major building components.

For each routine, preventive maintenance task, the manager must answer the following questions (sample answers are in italics):

- What is the specific maintenance **task?**
Removing leaves from the gutters in the fall.
- What is the **frequency** of the maintenance task?
This work must be performed every November and every May.
- What is the **duration** of the task?
The task will take two people eight hours.
- How do you assess that the task was successfully completed?
The gutters flow freely, and there are no leaks.
- What is the anticipated remaining useful life of this component?
The current guttering has about 10 years of useful life remaining and must be replaced at that time. After that, the guttering should be replaced every 25 years.

The actual schedule for preventive maintenance for each component should be based on industry standards developed by professional engineers or associations, servicing schedules recommended by the manufacturer, or the manager's experience of the past service requirements of the component. While many buildings are constructed in a similar or nearly identical style or construction technique, as buildings age they develop their own specific needs and characteristics.

To the extent that existing building information is available, the manager should use this information to learn about the building and to design the maintenance program. Such information may include building plans, drawings or specifications, prior inspection reports, information from people who currently work at or maintain the property or who did so in the past, information on the date of purchase or replacement of equipment and building components, equipment warranty information, and any existing maintenance, repair, or replacement records.

While the information noted above is useful in developing a maintenance plan, it is not essential. If such information is not available, the manager must put more time and effort into conducting the building survey to determine the baseline condition of the property.

INSPECTING AND MAINTAINING BUILDING COMPONENTS

Once the inventory of building and property components has been completed and the repair priorities have been established, the manager must develop a routine and preventive maintenance program to see to it that regular maintenance tasks are performed when necessary. The manager should set up a card file or computer system for tracking maintenance on each building component. This record system will be used to ensure that the components are regularly inspected, serviced, and repaired or replaced as necessary.

Whether the records are kept on printed cards or in a computerized database, they will have the same structure and serve the same function. For example, a card system will have one card that contains information on all the key points applicable to the maintenance of each building component or piece of equipment. Each card provides relevant equipment information, such as location, manufacturer, and model and serial numbers. (A sample equipment card is provided in Attachment I.)

The maintenance information includes the frequency that the task is performed (once a month, twice a year, etc.), the date the maintenance was carried out, and the initials of the individual performing the service. In addition to routine maintenance tasks, the equipment record is also used to record major repairs, such as replacing a motor on an air handling unit, replacing a pump, etc. When a maintenance task is performed it should be recorded on the equipment card or in the record in the computerized database. The repair information should include the date of repair, the type of repair, the cost of repair, and the identification of the person or contractor performing the repair.

The manager must make sure that maintenance and engineering personnel are instructed on the proper use of the maintenance tracking system. The appropriate staff should check the records every day to determine what preventive maintenance tasks are to be performed that day. They should produce work orders for any maintenance required (see section on work orders, below) and note the completion of the maintenance tasks on the card.

An important part of the maintenance process is maintaining a regular schedule to inspect equipment to ensure that it is operating within normal ranges and to ensure that no structural or other problems have developed. This will allow the manager to deal promptly with any problems before they reach a critical stage.

Once the list of preventive maintenance tasks has been established, the manager should summarize the tasks that must be performed over the entire year in an annual **preventive maintenance calendar**. The calendar lists each preventive maintenance item for a property along with the frequency that the task must be performed. From the annual preventive maintenance calendar, the manager can develop a **monthly** inspection program. The manager will assign tasks on a monthly basis to be completed by management company employees or by outside contractors. The monthly inspection program uses a document called the **project**

calendar, which identifies, for a given month, the tasks to be accomplished, the persons responsible for those tasks, and the status or condition of the component. A sample project calendar for the first three months of 1995 is provided in Attachment J. Once a task on the project calendar has been performed, the staff member will enter on the status line that either (a) the necessary work was done, (b) the component was in good condition at the time of inspection, or (c) that some further action needs to be taken.

The quality of the maintenance rogram will be improved by eeping accurate information on uilding components.

WORK ORDER SYSTEM

A work order system is the administrative end of any maintenance program. It is the method of providing maintenance and repair services to units and common area components in a way that requires accurate record keeping as to:

- responsibility for repair costs
- costs of parts
- costs of labor
- inventory control for maintenance supplies

The **work order form** (Attachment K) is the primary source for tracking the performance of maintenance tasks and the labor and parts costs related to that maintenance. By using work orders for *all* maintenance tasks, the management company automatically maintains records of work that is performed. Therefore, it is essential that the form capture key information and be easily used by everyone involved in the maintenance program, including contractors who bill the management company for their services. The work order system may be either manual (on paper) or automated (on computer), but either way its usefulness depends on accurate record keeping by the management company employees and contractors.

A work order system is used to track all routine and preventive maintenance for mechanical equipment serving the building and work done in the common areas of the property. If necessary, the management company may also use it to record repair activities inside individual units. By tracking maintenance activities both inside and outside units, the manager will have complete parts and labor data for all maintenance within a building. Such complete cost data enables the manager to make more accurate budget estimates, to improve inventory control for parts and supplies, and to better predict staffing or contract servicing requirements. In addition, the manager will be able to detect trends in any particular area of maintenance activity and take appropriate actions based on those trends to control costs and prevent more serious maintenance problems.

A work order system includes several steps. First the manager must determine what work needs to be done and assign the work to a responsible party. Determining the work to be done may be accomplished in several ways. By reviewing the preventive maintenance records on a daily basis, the manager can see that certain work must be done by a given date. Or, the manager may discover the need for certain maintenance work in the course of a routine inspection or maintenance activities. Finally, a tenant may report a maintenance problem to the management company.

It is obvious from the above that a successful work order system depends on having a central location for residents or staff to call or come into to report a maintenance problem. The management company would then generate work orders from this location. **Every complaint or maintenance request should result in the generation of a work order form.**

Once the maintenance tasks have been determined, the manager assigns these tasks to appropriate maintenance personnel. This may include maintenance personnel of the managing company or appropriate contractors. The manager would generate a work order for each task by completing a work order form. The work order should include the following information:

· A unique number that identifies the work order.

· The date and time that the problem was reported and the name of the person who reported it. If the problem was called in by a tenant, then the tenant's name, address, and telephone number should be written on the work order.

· The building address and identification numbers.

· The exact location of the problem (the unit number if inside a unit, floor number, location on the floor, etc.).

· The nature of the problem, described as specifically as possible (for example, "leaking pipe—dripping slowly," "leaking pipe—rapid water loss,""leaking kitchen faucet," "toilet stopped up,"etc.). It is important to be very specific so that maintenance workers can take with them the correct tools and parts. If they do not have the correct tools and parts, valuable time may be lost and the cost of the repair increased.

· An indication whether the work is being done in response to an emergency. **Emergency work has priority over all other tasks.** Emergencies are defined as events that interrupt essential services in the building or otherwise endanger tenants, such as no heat in winter, no water, odor of gas, major water leak damage (or risk of damage) to units or the common areas, frozen pipes, or a power outage.

· An indication whether the work is routine or preventive maintenance for common area components or equipment, preventive or seasonal maintenance in multiple units, non-chargeable in-unit maintenance, or chargeable in-unit maintenance.

· The person generating the work order and the date and time that the work order was prepared.

· The name of the person(s) assigned to perform the work.

· When the work should be done. If the problem requires access to a tenant's apartment, then the times when the maintenance workers can enter the apartment should be indicated.

Work order tasks can also be coded to permit the manager to summarize and analyze maintenance work in different properties. For example, plumbing can be set up as master category 00100, and different plumbing tasks can be identified as follows:

Faucet Replacement	00100-011
Drain Clearing	00100-012
Faucet Washer Replacement	00100-013

This type of coding is especially helpful for a computerized system.

Once the work order has been assigned, the person performing the work (whether an in-house maintenance person or an outside contractor) would then take the following steps:

- If the work requires entering an apartment, get permission to enter the unit if the tenant is not present and get the key from the manager.
- Carefully review the work order and ask questions about anything that is not clear.
- Get appropriate tools to perform the work.
- Check out from inventory any parts anticipated to be required to perform the work.
- Go to the location and perform the work required, calling for backup or additional support as necessary.
- Enter on the work order form any parts actually used to complete the work.
- Enter on the work order form the actual time required to perform the work, including the time to check out parts and to travel to and from the location.
- Sign the work order.
- Return the completed work order to the management company. If the work was performed inside a unit, a copy of the work order should be left with the resident as well.

When the completed work order is returned to the management company, the appropriate information should be entered into the maintenance records. In selected cases, the manager should inspect the work done and sign the work order as well.

The management company should keep a log of all work orders issued so that it can better keep track of the completion of maintenance tasks. The work order log should include the work order number, the date that the complaint was received, the date the work order was issued, a brief description of the work to be done, the person to whom the work order was assigned, the date the work was completed, and a code to indicate whether the problem was repaired.

The manager must continuously monitor the work order system once it is in place. The manager should review work orders periodically to determine how many requests or tasks have been generated and how many have been responded to and completed. For the many types of routine repairs, it is possible to develop a schedule of the total cost per task that includes parts, labor, and overhead. It then becomes easier to track whether these tasks are being completed within acceptable parameters. Examples of this type of work include repairing or replacing toilet valves, replacing sink faucet washers, and replacing entry door locks. The manager should investigate any instances where these guidelines are exceeded.

The manager must be able to ccount for all supplies and parts sed. As discussed in detail in hapter III, the management ompany must have effective ontrols to monitor parts and pplies inventories.

VIII.

IX.

OCCUPANCY MANAGEMENT

Occupancy management is the process of keeping all units in a building occupied and serving the needs of the residents and owners. The basic principles of occupancy management apply whether the building is publicly or privately-owned, or whether it is owner or renter-occupied.

Occupancy management must address every stage of the occupancy process—from the time an occupant is selected and moves into a building to when she leaves the building. This is important to the financial security of the property because maintaining a high rate of occupancy allows for continued stable operation of the building. The occupancy management process includes the following tasks:

- procedures for identifying potential residents
- unit turnover and preparing units for occupancy
- application process and resident selection
- the lease agreement procedures
- move-in procedures
- resident orientation
- lease termination and move-out
- record keeping

Depending on the arrangement with the owner, not all of these tasks may be the responsibility of the housing manager. In most municipally-owned rental properties, for instance, maintaining waiting lists and selecting new tenants are the responsibilities of the municipal housing office. Further, since there are not enough units for all those who want them, potential residents have little choice in the type of housing that they can obtain. They must take units that become available even if the unit is not the most desirable for their needs. Consequently, it is not necessary for the owner to market the units to attract potential renters.

In privately-owned housing, however, tenants will have more choice as to where they will live and what type of housing they will rent. In this situation, marketing becomes an important factor in drawing tenants to housing. The buildings that do a better job of influencing the decisions of prospective residents are more likely to remain fully occupied and will eventually have more flexibility to raise rents (and therefore become more financially sound and viable).

This chapter describes the tasks that are essential to good occupancy management practices. Since most rental housing remains municipally-owned today, the discussion begins with a description of vacant unit preparation.

VACANT UNIT PREPARATION

In a rental property, vacant units are unoccupied apartments or commercial units that do not generate income for the property. The income lost from these units is referred to as a **"vacancy loss"** and occurs if there is any period of time when the full rent is not collected for the unit. **It is in the interest of the owner and the property's cash flow to minimize vacancy loss.**

Part of the process to reduce vacancy loss is **an efficient and timely system for preparing a unit for the next resident after the occupant has moved out.** This change in occupancy is referred to as **"turnover" or "turning" a unit**. By carefully administering a lease program it is possible for the manager to know in advance when a unit will become vacant. The turnover process should begin before the unit is vacated.

The amount of advance notice that the manager has about vacant units depends on the lease arrangement with the tenants. Tenant leases can either be for a fixed term, or they may be open-ended. In a fixed-term lease, the tenant has a right to occupy the apartment for a specified period of time (provided that he meets the other terms of the agreement, such as paying rent on time). Such a lease may have a renewal option that would allow both parties to renew the lease beyond the initial term. This provision would require that the tenant notify the manager of his desire to continue renting or to vacate the apartment no later than 30 days prior to the expiration date of the lease agreement. The owner or the manager then has the option of allowing the tenant to continue to rent the apartment or not.

The lease renewal period can be either the same as the original lease term (one year, for example), or it may be a different period. In the U.S., for example, it is common for fixed-term leases to switch to a month-to-month arrangement after the initial lease period ends. Under a month-to-month lease, the tenant and the owner agree to renew the lease automatically in one month increments, unless one of the parties decides to end the lease by providing one month's advance notice to the other party. While such terms might appear to provide less security for the tenant, most people in the U.S. prefer the added flexibility such an arrangement provides. Furthermore, housing managers are not likely to want to lose good tenants because of the time involved in finding new tenants and the loss of revenues that result from vacant units.

From an owner's perspective, a fixed-term lease is preferable since it provides a stable and predictable income stream from the property. By promoting longer tenancy, having fixed-term leases can also minimize maintenance costs associated with turnovers. It also provides a fixed point in time when the terms of the lease (and possibly the rent) can be re-examined.

An open-ended lease contains no fixed term and allows the tenant to continue renting the apartment until she decides to leave. Such leases are common in Slovakia. In most cases, the owner would benefit from a provision that would require the tenant to provide at least 30 days advance notice before leaving the apartment. If the tenant fails to provide the required notice, the lease could make the tenant liable for paying the next month's rent.

Based on the type of lease arrangement that is used in particular buildings under the manager's care, the housing manager must keep tenant records that will allow him to see easily which tenants will have leases expiring and which tenants will be moving out in the next few months. The manager should contact the tenants whose leases are expiring to find out if they wish to renew their agreement or move out of the property. For tenants who will be moving out in the next month, the manager must schedule the appropriate unit preparation procedures for as soon as possible after the unit is vacated. **Under normal circumstances and with appropriate staffing and contractor coordination, vacant units should be prepared for a new tenant within five to seven business days.**

To accomplish such a rapid turnover, the housing manager needs to follow a carefully scheduled sequence of steps. On the first day after the unit has been vacated, the housing manager inspects the unit using a prepared checklist (see Attachment L). Maintenance workers or contractors remove all trash and debris and discard any furniture or belongings left behind by the previous tenant. They should also remove all light fixtures, electric outlet plates, door knobs, and window coverings to prepare the unit for painting and pull the stove out from the wall, remove any non-electric parts, and place them in the kitchen sink with hot soapy water to soak. According to the results of the inspection, the manager should schedule maintenance personnel to make needed repairs to the apartment.

On the second day, the unit should be painted in the morning, and cleaning personnel should clean the appliances and windows in the afternoon. On the morning of the third day, maintenance personnel should make any necessary repairs to appliances, light fixtures, toilets, faucets or other plumbing, damaged walls or floors, and so forth. Other work requiring contractors should also be done at this time, such as floor cleaning, bath tub and tile caulking, and pest extermination. (If there are major repairs needed that require work by an outside contractor, then these may require more time.)

On the fourth day after the apartment has been vacated, maintenance workers and contractors should complete their assigned maintenance and repair work, rehang light fixtures, and replace door knobs and light switch and electric outlet plates. Cleaning crews should thoroughly clean the unit, touch up windows, wipe out kitchen cabinets, and wax or stain floors.

Finally, on the fifth day the appropriate personnel should complete any unfinished tasks and the manager should inspect the apartment to ensure that all tasks have been completed and that the unit is ready for a new tenant. In the case of private rental properties, the apartment should never be shown to prospects until the preparation process has been completed.

APARTMENT INSPECTION FORM

The housing manager should onitor the turnover process daily r timeliness of repairs, eanliness, and completion of all aintenance items. Before the partment is turned over to a new nant, the manager must check at the apartment is ready for cupancy and that all equipment ppliances, lights, toilets, ucets) is in good working order.

The Apartment Inspection Form (Attachment L) provides a checklist for reviewing the condition of the unit and its components upon move-in or move-out of a resident. Conducting an inspection using a standard form protects both the tenant and the owner. When a tenant moves in, the inspection documents the condition in which the tenant received the unit from the owner, thus establishing a standard for evaluating the unit when the tenant moves out. If certain equipment or fixtures in the unit were not in good condition at the start of the tenant's occupancy, then the tenant cannot be held responsible for them when he moves out. If, however, the unit was in good condition when the tenant moved in and damage is found later, the owner can hold the tenant responsible. If a security deposit has been collected, the unit inspection can be used to determine whether it should be returned (see below).

To facilitate record keeping, it is easiest if the apartment inspection form is printed as a multi-part form, with one copy going to the tenant at the time of the move-in inspection, and the original and one copy going to the unit file for use at the time of the move-out inspection. If it is too expensive to print multi-part forms, then copies may be made and distributed to the tenant and the management company files.

NEW RESIDENT ORIENTATION AND MOVE-IN PROCEDURES

The apartment inspection form is e main written record of the ondition of the unit when the nant moves in. This form is nportant for comparing the condi- on of the unit when the tenant oves out.

First impressions are lasting. The successful housing manager should always strive to make the initial meeting with a new tenant as professional and agreeable as possible. To help the tenant make a smooth and trouble-free transition to a new apartment the manager should provide a resident orientation for all new tenants.

A resident orientation is the process of preparing a resident for moving into and living in the building. It should preferably take place before the first day of occupancy. If properly performed, it will give the resident positive feelings about moving into the building and is the first step toward building a successful relationship between the manager and the tenants.

Even if a building's tenants come from a government waiting list and have little or no choice as to the building or apartment in which they will live, an effective resident orientation program is still desirable. Such a program prevents or minimizes misunderstandings by providing tenants with practical information about the building. It provides an opportunity for the manager to acquaint new tenants with the building's rules and regulations and specific lease provisions. By making sure that tenants understand this information when they first move in rather than after problems or rule violations occur, the orientation also provides an opportunity for the manager to establish a positive and professional relationship with her tenants from the beginning. If the tenants feel good about where they live, they will make more of an effort to get along with their neighbors as well as with the manager. This will create a pleasant environment for everyone and make the manager's job much easier.

The orientation process will go smoothly and professionally only if it is prepared ahead of time. The manager should contact the new resident to set a date and time for the orientation and for the move-in date. The orientation should be held in a place that is both comfortable and professional looking. It should be neat, uncluttered, and free of distractions. The manager should follow up to confirm the appointment. Prior to the meeting, the manager should prepare two copies of all documents that need to be signed, including the lease (with appropriate information filled in and a red check placed by all areas that require signature or initials). The manager should also prepare any applicable move-in forms (such as those necessary to set up an account in the financial records). A copy of the apartment inspection form should also be ready.

It would also be helpful for the manager to assemble any other information that will be either necessary or useful for the new resident. This might include copies of building rules and regulations, evacuation plans, and fire and other emergency information. The manager should make copies of appropriate keys (entry door, building door, mailbox, etc.) and place them inside an envelope to give to the new resident.

Finally, it is very important that the manager set up the unit file in the filing system for the new tenant (see the section on record keeping below).

The orientation itself consists of just a few simple steps. The manager should:

- Begin the orientation by welcoming the new tenant warmly.
- Explain what she will be doing and the sequence of events and let the tenant feel free to ask questions at any time.
- Go over the lease agreement, explaining each provision and answering any questions, and have the new tenant sign or initial in each section where necessary.
- Collect any necessary deposits or fees from the tenant.
- Go over the building rules and any other documentation affecting occupancy.
- Give the tenant all applicable keys and obtain dated receipts signed by the tenant for all keys.
- If it has not already been done, schedule a move-in date and time and explain any rules relative to move-ins, including the use of elevators, which building entrance to use, etc.
- Review emergency information and building evacuation procedures.
- Show the tenant the location of laundry, storage, and other facilities available. Explain any rules governing their use.
- Conduct the unit move-in inspection using the apartment inspection form (Attachment L). Use the inspection as an opportunity to show the tenant how everything in the apartment works. Have the tenant acknowledge and sign the completed inspection form.
- Warmly thank the tenant for coming in for the orientation and tell him that she is looking forward to his stay in her building.

To minimize problems during the move-in process, the manager should establish appropriate move-in procedures. **Move-in procedures are designed to balance the needs of the tenant moving in with the need to maintain a smooth flow of building operations during the move and to avoid unnecessarily inconveniencing other tenants.** The move-in procedures for each property should be tailored to the needs and configuration of that property. The manager should consider any factors related to cost, convenience, safety and security, and protection of common areas in setting move-in procedures.

It is also important to consider the convenience of other tenants when developing move-in policies. For example, the manager should determine during what hours moves will be least disruptive to other tenants. Identify the building entries that should be used for moves and specify parking areas for trucks to minimize inconvenience to others. It is very important to coordinate the use of elevators and stairs so that potential conflicts are minimized.

The move-in procedures should be in writing, preferably as part of the property rules. The procedures should be provided and explained to each new tenant at the orientation or before moving arrangements are made.

SECURITY DEPOSIT

A security deposit is an up-front payment that is held as collateral against any financial default or damage to the unit or other property. While no property is required to charge a security deposit, it can be a very beneficial practice. The security deposit helps to protect the financial condition of the property by ensuring that funds are on hand in the event of a default or problem.

The security deposit may be set at any reasonable amount, according to the needs of the property and the ability of tenants to pay it. A typical security deposit in the U.S. is equal to one or two month's rent for the unit and is collected prior to move-in. The amount of the deposit should be related to the average cost of making repairs in the apartment, considering the cost of materials and labor.

The security deposit should be collected from the tenant before the tenant moves into the apartment. Since it is a "deposit,"the security deposit is normally refunded in full to the tenant after he moves out if the tenant has no outstanding financial obligations and has caused no damage to the unit. "Damage" refers to anything that goes beyond normal wear-and-tear on the apartment. If the security deposit is held in an interest-bearing account, the interest earned is for the benefit of the owner rather than the tenant, and so is not included in the refund of the deposit.

The procedures for determining the amount of the security deposit to be refunded to the tenant are described in the next section.

LEASE RENEWAL AND MOVE-OUT PROCEDURES

The **lease renewal process** applies to situations where tenants have a fixed-term lease. The process starts with the assumption that tenants will renew their lease and continue to live in the building. It is necessary, however, for the manager to determine at an early stage whether the tenant will be renewing or moving out. If the tenant *is* moving out and the manager determines this well in advance, the period during which the unit is vacant and not producing revenue can be minimized.

Sixty days prior to the lease renewal date, the manager should send the tenant a letter outlining the lease renewal options. This letter should remind the tenant of the date that his lease is expiring and outline the tenant's options. These may include the option to renew the lease for another term, to continue the lease on a month-to-month basis, or to terminate the lease at its termination date and move out at that time. The letter should advise the tenant that if he intends to move out, he should return the “Notice of Intention to Vacate Form” included with the letter. The letter should also state the amount and date of any applicable rent increase that will take effect if the lease is renewed.

Forty-five days before the lease renewal date, if the manager has not gotten a response she should contact the tenant to determine his plans. It is better to do this by telephone or in person as this creates more of a personal touch. If the tenant seems hesitant about renewing, the manager should create a graceful opportunity for the tenant to identify any concerns or problems. If the tenant expresses any concerns, the manager should let the tenant know what can and will be done to address those concerns.

If the tenant intends to move out, the manager should review the move-out procedures with the tenant and schedule a move-out inspection and a move-out date. Like the move-in procedures, move-out procedures are the steps necessary to ensure a smooth and uneventful vacating of an apartment by a tenant. Not only do they permit ending a tenant’s residency on a positive note, but effective move-out procedures can also prevent any last-minute damage to the property. Having procedures that are well-coordinated with the moving-in of the new tenant also allows the manager to minimize vacancy losses by minimizing the time that the unit is not generating rent.

Once notified that a tenant intends to move out of the building, the manager should take the following actions:

- Schedule the move-out inspection with the departing tenant.
- Schedule the move-out date.
- Send a letter advising the tenant of move-out procedures and the requirements for the return of his security deposit. This letter should state the tenant’s obligation to return all unit and common area keys; thoroughly clean the unit (including appliances); remove all furniture, belongings, and trash; and provide a forwarding address.
- In the presence of the tenant, conduct the move-out inspection.
- Schedule maintenance workers and outside contractors for unit turnover work, in accordance with section on Vacant Unit Preparation (above).

The move-out inspection should use the same form that was completed for the move-in inspection so that any conditions noted at that time are taken into account. The move-out inspection should note the cleanliness of the unit and whether the unit or any of its components have been damaged beyond normal wear-and-tear. Once the inspection is completed, the tenant must sign the move-out inspection form. If the manager is unable to inspect the apartment with the tenant, she should take a maintenance person and a camera with her and photograph any damaged or problem areas so that there is an objective record of the observations.

If a security deposit was obtained when the tenant moved in, the manager should make no statement during the move-out inspection as to whether the security deposit will be refunded.

After the inspection, the manager must determine whether any damages or cleaning charges should be deducted from the security deposit. If the unit has been damaged beyond normal wear-and-tear, or if there are outstanding financial obligations from the tenant (such as unpaid rent), then the manager should deduct such expenses from the security deposit and refund the balance, if any, to the tenant. The manager should obtain a written estimate of the cost of repairing these damages and include a copy with the tenant's refund to justify any expenses deducted from the deposit.

If the cost of damage repairs or the amount of any outstanding financial obligation exceeds the amount of the security deposit, then it may be possible for the owner to sue for the additional money. This can only be done if there is appropriate language in the lease. If not, or if the suit is not successful, then such expenses must be paid for as an operating cost of the property.

If there is no damage and no cleaning is required, and if the tenant has no outstanding financial obligations, then the entire amount of the security deposit is returned to the tenant.

Once the amount of the security deposit that is to be refunded has been determined, the manager should prepare a letter to the tenant, a copy of which will go into the tenant's file, indicating the disposition of the security deposit. The letter should include:

- the amount of the original security deposit
- the amount of any damage or cleaning charges deducted, identifying the specific damage or cleaning required and the cost of the repairs and cleaning.
- copies of written estimates or bills for any damages or cleaning costs
- the amount of any outstanding financial obligations deducted, identifying the specific nature of those financial obligations
- the amount to be returned to the tenant, if any

The remaining balance of the security deposit should be refunded promptly to the former tenant, but only after payment has been confirmed for all outstanding bills and charges. If the security deposit is refunded by postal order, it may be mailed to the tenant at the forwarding address provided. If the deposit is to be refunded in cash, then the tenant should come to the management office to receive the refund and sign a receipt for it.

RECORD KEEPING

An effective occupancy management program depends on good information. Therefore, it is important that appropriate records be established and regularly updated to help sustain high occupancy levels. The housing manager needs to have information about the units and the status of the leases ready for quick review. Although the specific format of these records and the methodology for building and maintaining the records may be determined by each manager, this section offers some suggestions.

Tenant Files

All tenant files should be kept in unit order only. This practice allows for a continued rental history and will permit the manager to obtain information if needed. The tabs for the tenant file folders should be labeled as follows:

BUILDING #225 UNIT #101

Novak, Ján Move-in: 12/01/95 Move-out: _______

The manager should set up file drawers according to building numbers and file the tenant files in unit number order. Each tenant file should contain the following documents:

Copy of tenant lease
Apartment inspection forms
Accounting forms
Status of security deposit
Tenant correspondence
Legal paperwork
Rent or service charge increases

Unit Status Log

A quick profile of the status of a unit can be kept on a sheet of paper with rows for the units and columns headed as follows:

Building Number 225

Unit No.	Occu-pancy Status	Lease Expiration Date	Vacate Notice Given	Vacate Date	New Move-in Date
101	Occup.	11/30/96			
102	Occup.	3/30/95	1/30/95	3/30/95	
103	Vac.	1/30/95	12/30/94	1/30/95	3/1/95

Prospect Data Records

If the management company is responsible for maintaining a list of prospective tenants, then the manager must maintain Prospect Data Records. The Prospect Data Records are simply cards or forms (of any size) that contain statistical information on someone who is interested in moving into a unit. They allow the manager to know very quickly what type of unit each prospect needs and that they have been contacted before. This record is a resource to the leasing clerk and provides a system for future follow-up with prospective tenants. The front of the card or form is filled out when the person fills out an application either at the property or with the municipality. It contains information about the type of unit needed, the number, age, and gender of family members, the desired move-in date, and how the applicant can be contacted. The back of the card or form has information that serves as a monitoring tool for follow-up. The leasing clerk, or whoever is responsible for contacting the prospect, writes down when they were contacted about a unit and the result.

The Prospect Data Record should be used in conjunction with the Waiting List. All applicants on the Waiting List should also have a Prospect Data Record. When a unit becomes available, the waiting list is first checked to identify the next eligible prospect, then his Data Record can be checked to see if he is eligible for that particular size unit.

X.

XI.

OWNER AND RESIDENT RELATIONS

Owner and Resident Relations refers to the nature of the relationship and the communications between the manager and the property owner, and between the manager and the residents. The owner in this case may include the state or local government, a private individual or enterprise, or the collective owners of units in a building where all units have been privatized (an owners' association).

In this chapter, the manager will learn how to:

- Prepare for and conduct successful meetings with the owner
- Prepare a Management Report and Meeting Package

OWNER MEETINGS

Periodic meetings are necessary to maintain good relations with the owner or owners of the property. Many people are more comfortable doing business face to face than by telephone or written reports, and some subjects are easier to deal with in person than through other means. The meetings also present an opportunity to strengthen the business relationship between the owner and the manager.

These meetings, and the written reports that should be provided to the owner prior to the meetings, serve as the opportunity for the management team to inform the owner about past, present and future activities, as well as any issues that need to be addressed concerning the property. These contacts also provide an opportunity to resolve any problems that may exist between the owner and the manager.

It is important to be sensitive to problems in the owner/manager relationship and address them as soon as they are detected. The longer such problems continue, the more likely they are to cause an irreparable rift in the relationship.

MANAGEMENT REPORT AND MEETING PACKAGE

A periodic written management report is an effective tool for maintaining communications with the owner. The management report is a written report on the activities, accomplishments, plans, and recommendations of the management team since the last meeting with the owner. The management report informs the owner of what the manager has been doing on his behalf, discusses issues and concerns that require a decision from the owner, and reports on activities in progress and in the near future.

The specific format, content, and level of detail of the management report may be determined by each management firm, in consultation with the owner. A sample management report format is shown in Figure 9.

'igure 0. Management Report Format

TO:

'ROM:

)ATE:

Ł E: *[month/year]* **- MANAGEMENT ŁEPORT**

. FINANCIAL

I. ADMINISTRATIVE CALENDAR

II. SCHEDULE OF SERVICE :ONTRACTS

V. ACTION ITEMS

'. ACTION LIST

'I. MANAGEMENT REPORT

'II. OTHER ISSUES/ITEMS

Financial Information

Each management report should provide an interpretation of the information contained in the financial statements, in language that the owner will understand. The key information necessary for an owner to make informed financial decisions includes:

- Information on Assets:

How much cash does the property have? How has the cash position changed from the last report to this one? What are the sources of the change? Were they expected or unexpected? How much cash remains after all obligations are met? Is this remaining cash committed for some future time in the year, or is it available for use?

Are the uncollected receivables for the property at a normal and expected level, or are they higher than normal? If higher than normal, why? Are there any tenants who are delinquent? What action is being taken to collect receivables? What is the trend—are the receivables increasing or decreasing?

- Information on Liabilities:

Are the property's bills being paid on time? If not, why? Is this a trend or a temporary condition? Are there any unbudgeted liabilities coming up?

- Information on Income and Expenses:

Is the property's income on target with budgeted projections for this period and the year to date? If not, why?

Are any actions needed to ensure that the budgeted income is received?

Are each of the expense line items on target with budgeted projections for this period and the year to date? If not, why? How are income and expense projections performing by major category? If they are off target, why?

What is the property's "bottom line": is the property breaking even, making a profit, or losing money? If this is different than what was projected, why is this so?

Are any actions needed to adjust for significant trends?

Administrative Calendar

The administrative calendar is a schedule of all routine and known management events for the upcoming year. It should identify key actions to be taken, with appropriate lead times, and identify the person or entity responsible. The administrative calendar should list at least the following:

- Regularly scheduled meetings
- Time frames for soliciting bids, reviewing proposals, awarding contracts, and commencing service for any contracted services
- The budget preparation timetable, including drafting the initial budget, allowing the owner to review the budget, preparing the final draft, adopting the budget, and distributing the budget to appropriate parties
- Scheduled property inspections
- Major projects (such as installation of a new roof) scheduled during the coming year, including all phases of work
- Renewal/renegotiation of the management agreement
- Any other major property activities

The administrative calendar should be updated each month as part of the management report, showing actions taken and completed items.

Not only does the administrative calendar help the management team to track and take action on important items throughout the year, it also demonstrates to the owner a proactive approach to housing management. This enhances a desirable image of competence and professionalism that a good manager should cultivate.

Schedule of Service Contracts

A schedule of service contracts indicates the contract cycles relative to each contract, particularly those which require action to be taken to avoid automatic renewals. This schedule should be updated as appropriate on a monthly basis.

Action Items and the Action List

From time to time, there may be matters that require a business decision on the part of the owner or that exceed the level of authority granted the manager in the management agreement. There may be other matters that are within the authority of the manager, but that should be decided by the owner rather than the manager as a matter of courtesy.

Each management report should either indicate that there are no action items or should identify the action item along with the following information:

- Issue on which an owner decision is required
- Background information on the issue, identifying the problem, alternative solutions, and benefits and drawbacks of each approach
- The specific action/decision recommended and/or requested from the owner

The decisions or actions taken on these items should lead to an action list for tracking progress on the implementation of these items. The action list is a chart showing the action required, person or entity to whom it is assigned, due date for the action, the current status, and any other relevant information. The action list should also be updated each month as part of the management report.

Management Report Narrative

The management report narrative is a written report of items completed, in progress, and anticipated by the manager. It is important to remember that the management report is the management team's opportunity to show what it has accomplished to further the owner's objectives, needs, and desires. This is a vital part of providing customer service to the owner.

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